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June 19, 2001

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Case 12684

Hand Delivered

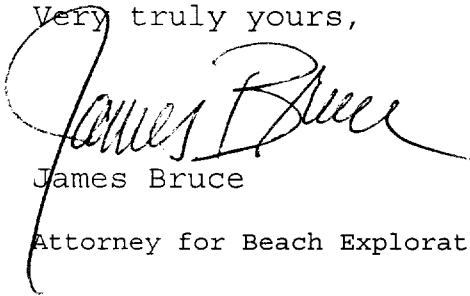
Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed are an original and one copy of (1) an application for statutory unitization, with a proposed advertisement, and (2) an application for a waterflood project, with a proposed advertisement, filed on behalf of Beach Exploration, Inc. Please set these matters for the July 12, 2001 Examiner hearing. Thank you.

The applications and advertisements are also on the enclosed disk.

Very truly yours,



James Bruce

Attorney for Beach Exploration, Inc.

cc: Artesia Office w/injection application

PROPOSED ADVERTISEMENT

Case 12684: Application of Beach Exploration, Inc. for statutory unitization, Eddy County, New Mexico. Applicant seeks an order unitizing all mineral interests in the designated and undesignated High Lonesome-Queen Pool underlying parts of Sections 17, 18, 19, and 20, Township 16 South, Range 29 East, NMPM, comprising 1156.60 acres, more or less, of state and federal lands for its proposed West High Lonesome Queen Unit. Among the matters to be considered at the hearing, pursuant to the New Mexico Statutory Unitization Act, NMSA 1978 §§70-7-1 et. seq., will be: The necessity of unit operations; the determination of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investments, to each of the tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate. Said unit is centered approximately 10 miles northwest of Loco Hills, New Mexico.

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BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF BEACH EXPLORATION,
INC. FOR STATUTORY UNITIZATION,
EDDY COUNTY, NEW MEXICO.

No. _____

APPLICATION

Beach Exploration, Inc., for its application, states:

1. Applicant is engaged in the business of producing and selling oil and gas as defined by the Statutory Unitization Act, NMSA 1978 §§70-7-1 through 21 (the "Act").

2. Applicant is a working interest owner in, and the operator of, the proposed West High Lonesome Unit Area (the "Unit Area"), which covers the following state and federal lands located in Eddy County, New Mexico:

TOWNSHIP 16 SOUTH, RANGE 29 EAST, N.M.P.M.

Section 17: S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$, and W $\frac{1}{2}$ SE $\frac{1}{4}$

Section 18: Lots 2, 3, 4, S $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, and SE $\frac{1}{4}$

Section 19: NE $\frac{1}{4}$ and E $\frac{1}{2}$ NW $\frac{1}{4}$

Section 20: NW $\frac{1}{4}$ NE $\frac{1}{4}$, N $\frac{1}{2}$ NW $\frac{1}{4}$, and SW $\frac{1}{4}$ NW $\frac{1}{4}$

Containing 1156.60 acres, more or less.

A plat of the unit area is attached hereto as Exhibit A.

3. The vertical limits of the unitized formation is that interval underlying the Unit Area described as follows:

The Penrose section of the Queen formation between the depths of 1708 feet and 1738 feet as shown by the Schlumberger Compensated Neutron-Litho Density Log dated 4/6/86 in the Exxon Federal Well No. 4 located 1650 feet FSL and 1650 feet FEL of Section 18, Township 16 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

The Penrose Sand reservoir underlying the Unit Area has been reasonably defined by development.

4. Applicant proposes to institute a waterflood project for the Unit Area, as further described in a related application filed concurrently herewith.

5. The plan of unitization for the Unit Area is embodied in the Unit Agreement, which is attached hereto as Exhibit B and is incorporated herein by reference. The plan of unitization is fair, reasonable, and equitable, and the participation formula contained therein allocates the produced and saved hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable, and equitable basis.

6. The operating plan for the Unit Area, covering the manner in which the Unit Area will be supervised and managed, and costs allocated and paid, is embodied in the Unit Operating Agreement, which is attached hereto as Exhibit C and is incorporated herein by reference.

7. The unitized management, operation, and further development of the Penrose Sand reservoir underlying the Unit Area is reasonably necessary in order to effectively carry on waterflood operations and to substantially increase the ultimate recovery of oil and gas therefrom.

8. The waterflood project, as applied to the Penrose Sand reservoir underlying the Unit Area, is feasible, will prevent waste, and will result with reasonable probability in the increased

recovery of substantially more oil and gas from the Penrose Sand reservoir than would otherwise be recovered.

9. The estimated additional costs of conducting unitized operations will not exceed the estimated value of the additional oil and gas recovered thereby, plus a reasonable profit.

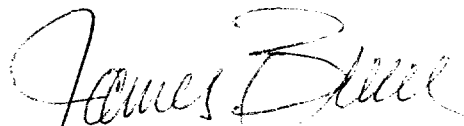
10. Unitization and approval of the waterflood project will benefit the working interest owners and royalty owners in the Penrose Sand reservoir underlying the Unit Area.

11. Applicant has made a good faith effort to secure the voluntary unitization of interest owners in the Unit Area.

12. The granting of this application is in the interests of conservation and the prevention of waste.

WHEREFORE, applicant requests that, after notice and hearing, the Division enter its order granting the relief requested herein.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Bruce", is written over a horizontal line.

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Beach Exploration, Inc.

R28E R29E

13

18

17

T
16
S

24

Rosewood St.

Beach
Red Lake
Unit

25

30

29

Depco-
St.

7-Up Fed.

Ryan-Fed.

Ginger-
Fed.

Brainard-Fed.

ILes-Fed.

Atkins-Fed.

Skelly-State

Atkins-State

ILes-Fed.

ILes-Fed.

Exxon-Fed.

Shiloh-Fed.

Exxon-Fed. 'A'

Cal-
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Tracts ① - ⑪ 1080.0 Acres Federal Lands
Tract ⑫ 76.6 Acres State Lands
0.0 Acres Fee Lands
1156.6 Acres Total Unit



Beach Exploration, Inc.

**WEST HIGH LONESOME
PENROSE SAND UNIT**
EXHIBIT "A"
Proposed Unit Outline
Tract Number ①



Eddy County, New Mexico Scale: 1"=2000
JMR October 2000

EXHIBIT

A

Blumberg No. 5208

STATE/FEDERAL/FEE
WATERFLOOD UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

WEST HIGH LONESOME UNIT AREA

EDDY COUNTY, NEW MEXICO

NO. _____

Rev. 1/92



UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
WEST HIGH LONESOME UNIT
EDDY COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
WEST HIGH LONESOME UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of October, 2000, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1 of Chapter 176, Laws of 1961) (Chapter 19, Article 10, Section 45, New Mexico 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 (Section 1, Chapter 88, Laws 1943, as amended by Section 1, Chapter 162, Laws of 1951) (Chapter 19, Article 10, Section 47, New Mexico Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the State of New Mexico (hereinafter referred to as the "Division") is authorized by an Act of the Legislature (Chapter 72, Laws of 1935 as amended) (Chapter 70, Article 2, Section 2 et seq., New Mexico Statutes 1978 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chapter 65, Article 3 and Article 14, N.M.S. 1953 Annotated) to approve this Agreement and the conservation provisions hereof; and

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

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

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their respective interest in the below-defined Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this Agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the Effective Date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the state in which the non-Federal land is located, are hereby accepted and made a part of this Agreement.

SECTION 2. UNIT AREA AND DEFINITIONS. For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

(a) "Unit Area" is defined as those lands described in Exhibit "B" and depicted on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area, containing 1,156.60 acres, more or less, in Eddy County, New Mexico.

(b) "Land 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 Department of Energy and Minerals of the State of New Mexico.
- (d) "Authorized Officer" or "A.O." is any employee of the Bureau of Land Management who has been delegated the required authority to act on behalf of the BLM.
- (e) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate.
- (f) "Department" is defined as the Department of the Interior of the United States of America.
- (g) "Proper BLM Office" is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area.
- (h) "Unitized Formation" shall mean that subsurface portion or portions of the Unit Area commonly known as the Penrose section of the Queen formation, comprising the same separate reservoir as found in the following well:

Beach Exploration, Inc. - Exxon Federal #4, located 1650' FSL and 1650' FEL, Section 18, T-16-S, R-29-E, Eddy County, New Mexico, between the depths of 1708' and 1738' as shown by the Schlumberger Compensated Neutron - Litho Density Log dated 4/6/86.

- (i) "Unitized Substances" are all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons, other than outside substances, within and produced from the Unitized Formation.
- (j) "Tract" is each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentage of participation shown on Exhibit "B" "C" for allocating Unitized Substances to a Tract under this agreement.
- (l) "Unit Participation" is the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract by the Tract Participation of such Tract.
- (m) "Working Interest" is the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, operating agreement, or otherwise held, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and operations thereof hereunder. Provided that any royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of the working interest shall continue to be subject to such working interest burdens and obligations.
- (n) "Working Interest Owner" is any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise. The owner of oil and gas rights that are free of lease or other instrument creating a Working Interest in another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.
- (o) "Royalty Interest" or "Royalty" is an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor or by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce unitized substances.
- (p) "Royalty Owner" is the owner of a Royalty Interest.
- (q) "Unit Operating Agreement" is the agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, *infra*, and shall be styled "Unit Operating Agreement, West High Lonesome Unit, Eddy Co., New Mexico".
- (r) "Oil and Gas Rights" is the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.
- (s) "Outside Substances" is any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.
- (t) "Unit Manager" is any person or corporation appointed by Working Interest Owners to perform the duties of Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 7 hereof.

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

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

(w) "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.

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

(y) "Effective Date" is the date determined in accordance with Section 24, or as redetermined in accordance with Section 39.

SECTION 3. EXHIBITS. The following exhibits are incorporated herein by reference: Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentages and kind of ownership of oil and gas interests in all land in the Unit Area. Exhibit "C" is a table showing the Tract Participation for each tract based on ultimate primary production. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. The shapes and descriptions of the respective Tracts have been established by using the best information available. Each Working Interest Owner is responsible for supplying Unit Operator with accurate information relating to each Working Interest Owner's interest. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date hereof, should be divided into more than one Tract, or when any revision is requested by the A.O., or any correction of any error other than mechanical miscalculations or clerical is needed, then the Unit Operator, with the approval of the Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any reevaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each other such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit. Copies of such revision shall be filed with the Land Commissioner, and not less than four copies shall be filed with the A.O. In any such revision, there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof.

SECTION 4. EXPANSION. The above described Unit Area may, with the approval of the A.O. and Land Commissioner, when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement provided, however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof. Pursuant to Subsection (b), the Working Interest Owners may agree upon an adjustment of investment by reason of the expansion. Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into this unit, shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit Area and in the Tract proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if at least three Working Interest Owners having in the aggregate seventy-five percent (75%) of the Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

1. After obtaining preliminary concurrence by the A.O. and Land Commissioner, prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof; and

2. Deliver copies of said notice to Land Commissioner, the A.O. at the proper BLM Office, each Working Interest Owner and to the last known address of each lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

3. File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Land Commissioner and A.O. the following: (a) evidence of mailing or delivering copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirements of Section 14, and Section 34, *infra*; and (d) a copy of all objections received along with the Unit Operator's response thereto.

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

SECTION 5. UNITIZED LAND. All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land subject to this Agreement". Nothing herein shall be construed to unitize, pool, or in any way affect

the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as defined in Section 2 (h) of this Agreement.

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

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

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Land Commissioner and the A.O. 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 by Working Interest Owners having in the aggregate eighty percent (80%) or more of the Unit Participation then in effect exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the A.O.

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

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, books and records, materials, appurtenances and any other assets used in connection with the Unit Operations to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected. Nothing herein shall be construed as authorizing the removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator or Unit Manager who resigns or is removed hereunder from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or the A.O., at their election, may declare this Agreement terminated.

In selecting a successor Unit Operator, the affirmative vote of three or more Working Interest Owners having a total of sixty-five percent (65%) or more of the total Unit Participation shall prevail; provided that if any one Working Interest Owner has a Unit Participation of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one or more other Working Interest Owners having a total Unit Participation of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of the owners of at least seventy-five percent (75%) of the Unit Participation remaining after excluding the Unit Participation of Unit Operator so removed.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Land Commissioner and with the A.O. at the Proper BLM Office as required prior to approval of this Agreement.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto including surface rights which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be

construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or enhanced recovery purposes in accordance with a plan of operation approved by the Working Interest Owners, the A.O., the Land Commissioner and the Division, including the right to drill and maintain injection wells on the Unitized Land and completed in the Unitized Formation, and to use abandoned well or wells producing from the Unitized Formation for said purpose. Subject to like approval, the Plan of Operation may be revised as conditions may warrant.

The initial Plan of Operation shall be filed with the A.O., the Land Commissioner and the Division concurrently with the filing of the Unit Agreement for final approval. Said initial plan of operations and all revisions thereof shall be as complete and adequate as the A.O., the Land Commissioner and the Division may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement and the initial plan by the A.O. and Commissioner, said plan, and all subsequently approved plans, shall constitute the operating obligations of the Unit Operator under this Agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operations. After such operations are commenced, reasonable diligence shall be exercised by the Unit Operator in complying with the obligations of the approved Plan of Operation.

Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within eighteen (18) months after the effective date of this Agreement, or any extension thereof approved by the A.O., this Agreement shall terminate automatically as of the date of default.

SECTION 12. USE OF SURFACE AND USE OF WATER. The parties to the extent of their rights and interests, hereby grant to Unit Operator the right to use as much of the surface, including the water thereunder, of the Unitized Land as may reasonably be necessary for Unit Operations.

Unit Operator's free use of water or brine or both for Unit Operations, shall not include any water from any well, lake, pond or irrigation ditch of a surface owner, unless approval for such use is granted by the surface owner.

Unit Operator shall pay the surface owner for damages to growing crops, fences, improvements and structures on the Unitized Land that result from Unit Operations, and such payments shall be considered as items of unit expense to be borne by all the Working Interest Owners of lands subject hereto.

SECTION 13. TRACT PARTICIPATION. In Exhibit "B" "C" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation, during Unit Operations if all Tracts in the Unit Area qualify as provided herein. ~~The Tract Participation of each Tract as shown in Exhibit "B" was determined in accordance with the following formula:~~

~~Tract Participation = 50% A/B + 40% C/D + 10% E/F~~

~~A = the Tract Cumulative Oil Production from the Unitized Formation as of September 30, 1982.~~

~~B = the Unit Total Cumulative Oil Production from the Unitized Formation as of September 30, 1982.~~

~~C = the Remaining Primary Oil Reserves from the Unitized Formation for the Tract, beginning October 1, 1982, as determined by the Technical Committee on February 25, 1983.~~

~~D = the Remaining Primary Oil Reserves from the Unitized Formation for all Unit Tracts, beginning October 1, 1982, as determined by the Technical Committee on February 25, 1983.~~

~~E = the amount of oil produced from the Unitized Formation by the Tract from January 1, 1982, through September 30, 1982.~~

~~F = the amount of oil produced from the Unitized Formation by all Unit Tracts from January 1, 1982, through September 30, 1982.~~

In the event less than all Tracts are qualified on the Effective Date hereof, the Tract Participation shall be calculated on the basis of all such qualified Tracts rather than all Tracts in the Unit Area.

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances shall be those Tracts more particularly described in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public road or a railroad right-of-way shall be considered to have a common boundary), and that otherwise qualify as follows:

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

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owners owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract have joined in a request for the inclusion of such Tract, and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the combined Unit Participation in all Tracts that meet the requirements of Section 14 (a) above have voted in favor of the inclusion of such tract.

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owner owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract, and have executed and delivered, or obligated themselves to execute and deliver an indemnity agreement indemnifying and agreeing to hold harmless the other owners of committed Working Interests, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such Tract who are not parties to this Agreement, and which arise out of the inclusion of the Tract; and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the Unit Participation in all Tracts that meet the requirements of Section 14 (a) and 14 (b) have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. Upon the inclusion of such a Tract, the Tract Participation which would have been attributed to the nonsubscribing owners of Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, and joined in the indemnity agreement, in proportion to their respective Working Interests in the Tract.

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Land Commissioner and the A.O., file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in Unitized Substances. Said schedule shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such tract which shall be computed according to the participation formula set forth in Section 13 (Tract Participation) above. This schedule of participation shall be revised Exhibit "B" and upon approval thereof by the Land Commissioner and the A.O., shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Land Commissioner and A.O.

SECTION 15.A. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for injection or unavoidable loss in accordance with a Plan of Operation approved by the A.O. and Land Commissioner) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B". 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 entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tracts, or in the proceeds thereof, had this Agreement not been entered into; and with the same legal force and effect.

No Tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances.

If the Working Interest and/or the Royalty Interest in any Tract are divided with respect to separate parcels or portions of such Tract and owned now or hereafter in severalty by different persons, the Tract Participation shall in the absence of a recordable instrument executed by all owners in such Tract and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

SECTION 15.B. EXCESS IMPUTED NEWLY DISCOVERED CRUDE OIL. Each Tract shall be allocated any excess imputed newly discovered crude oil in the proportion that its Tract Participation bears to the total of the Tract Participations of all Tracts not previously allocated the total number of barrels of crude oil allocable to these Tracts out of unit production in accordance with the Tract Participations of such Tracts; provided, however, that excess imputed newly discovered crude oil allocated to each such Tract, when added to the total number of barrels of imputed newly discovered crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15.C. EXCESS IMPUTED STRIPPER CRUDE OIL. Each Tract shall be allocated any excess imputed stripper crude oil in the proportion that its Tract Participation bears to the total of the Tract Participations of all Tracts not previously allocated the total number of crude oil barrels allocable to these Tracts out of unit production in accordance with the Tract Participations of such Tracts; provided, however, that

excess imputed stripper crude oil allocated to each such Tract, when added to the total number of barrels of imputed stripper crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15.D. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unitized Area, provided the same are so constructed, maintained and operated as not to interfere with Unit Operations. Subject to Section 17 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party taking delivery. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation then so long as such condition continues, Unit Operator, for the account and at the expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may, but shall not be required to, sell or otherwise dispose of such production to itself or to others, provided that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year, and at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all royalty, overriding royalty and production payments due thereon, and each such party shall hold each other Working Interest Owner harmless against all claims, demands and causes of action by owners of such royalty, overriding royalty and production payments.

If, after the Effective Date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the Effective Date hereof but which are subsequently committed hereto under the provisions of Section 14 (Tracts Qualified for Participation) and Section 32 (Nonjoinder and Subsequent Joinder); or if any Tract is excluded from this Agreement as provided for in Section 21 (Loss of Title), the schedule of participation as shown in Exhibit "B" shall be revised by the Unit Operator; and the revised Exhibit "B", upon approval by the Land Commissioner and the A.O., shall govern the allocation of production on and after the effective date thereof until a revised schedule is approved as hereinabove provided.

SECTION 16. OUTSIDE SUBSTANCES. If gas obtained from formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulating of production or increasing ultimate recovery which shall be in conformity with a Plan of Operation first approved by the Land Commissioner and the A.O., a like amount of gas with appropriate deduction for loss or depletion from any cause may be withdrawn from unit wells completed in the Unitized Formation royalty free as to dry gas, but not royalty free as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved Plan of Operation or as otherwise may be consented to or prescribed by the Land Commissioner and the A.O. as conforming to good petroleum engineering practices and provided further that such right of withdrawal shall terminate on the termination date of this Agreement.

SECTION 17. ROYALTY SETTLEMENT. The State of New Mexico and United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under the leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Agreement. With respect to Federal leases committed hereto on which the royalty rate depends upon the daily average production per well, such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline runs per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the Effective Date hereof, provided that any Tract not having any well so capable of producing Unitized Substances on the Effective Date hereof shall be considered as having one such well for the purpose of this provision.

All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts committed hereto, in lieu of actual production from such Tract or Tracts.

With the exception of Federal and State requirements to the contrary, Working Interest Owners may use or consume Unitized Substances for Unit Operations and no Royalty, overriding royalty, production or other payments shall be payable on account of Unitized Substances used, lost, or consumed in Unit Operations.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

SECTION 18. RENTAL SETTLEMENT. Rentals or minimum Royalties due on the leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum Royalty in lieu thereof, due under their leases. Rental 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. Rental or minimum Royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless such rental or minimum Royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 19. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 20. DRAINAGE. The Unit Operator shall take all reasonable and prudent measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

The Unit Operator, upon approval by the Working Interest Owners, the A.O. and the Land Commissioner, is hereby empowered to enter into a borderline agreement or agreements with working interest owners of adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum economic recovery, conservation purposes and proper protection of the parties and interest affected.

SECTION 21. LOSS OF TITLE. In the event title to any Tract of unitized land shall fail and the true owner cannot be induced to join in this Agreement, such Tract shall be automatically regarded as not committed hereto, and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any Royalty, Working Interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to State or Federal lands or leases, no payments of funds due the United States or the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the A.O. or Land Commissioner (as the case may be) to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the direction of Working Interest Owners shall either:

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

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

Each Working Interest Owner shall indemnify, hold harmless, and defend all other Working Interest Owners against any and all claims by any party against the interest attributed to such Working Interest Owner on Exhibit "B".

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

SECTION 22. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Land Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal and 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 Tract subject to this Agreement, regardless of whether there is any development of any Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing or improved recovery operations performed hereunder shall be deemed to be performed upon and for the benefit of each Tract, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations within the Unit Area pursuant to direction or consent of the Land Commissioner and the A.O., or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract within the Unitized Area.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil and gas which by its terms might expire prior to the termination of this Agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.

(e) Any lease embracing lands of the State of New Mexico which is made subject to this Agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(f) 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 (including both segregated portions) 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 bona fide drilling, reworking, or improved 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.

(g) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

SECTION 23. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer.

SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective on the first day of the calendar month next following the approval of this Agreement by the A.O., the Land Commissioner and the Commission.

If this Agreement does not become effective on or before March 15, 2002, it shall ipso facto expire on said date (hereinafter call "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Participation of at least seventy-five percent (75%); and at least seventy-five percent (75%) of such Working Interest Owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before the Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

Unit Operator shall file for record within thirty (30) days after the Effective Date of this Agreement, in the office of the County Clerk of Eddy County, New Mexico, where a counterpart of this Agreement has become effective according to its terms and stating further the effective date.

The terms of this Agreement shall be for and during the time that Unitized Substances are produced from the unitized land and so long thereafter as drilling, reworking or other operations (including improved recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days unless sooner terminated as herein provided.

This Agreement may be terminated with the approval of the Land Commissioner and the A.O. by Working Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer

profitable, or in the interest of conservation. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Eddy County, New Mexico, within thirty (30) days of the effective date of termination.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement had never been entered into.

Notwithstanding any other provisions in the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 25. RATE OF PROSPECTING, DEVELOPMENT & PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State Statute. The A.O. is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Division to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Land Commissioner and as to any lands in the State of New Mexico or privately-owned lands subject to this Agreement or to the quantity and rate of production from such lands in the absence of specific written approval thereof by the Division.

Powers in this Section vested in the A.O. shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.

SECTION 26. NONDISCRIMINATION. Unit Operator in connection with the performance of work under this Agreement relating to leases of the United States, agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246, (30 F.R. 12319), which are hereby incorporated by reference in this Agreement.

SECTION 27. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Land Commissioner, the Department, and the Division, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department or the Division, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner, the Department or the Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 28. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified or registered mail, addressed to such party or parties at their last known address set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 29. NO WAIVER OF CERTAIN RIGHT. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, each party hereto covenants that it will not resort to any action to partition the unitized land or the Unit Equipment.

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

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

SECTION 32. NONJOINDER AND SUBSEQUENT JOINDER. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to this Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Agreement.

Any oil or gas interest in the Unitized Formations not committed hereto prior to submission of this Agreement to the Land Commissioner and the A.O. for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time up to the Effective Date hereof on the same basis of Tract Participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after the Effective Date hereof the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners owning not less than sixty-five percent (65%) of the Unit Participation then in effect, and approved by the Land Commissioner and A.O. Such subsequent joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement and, where State or Federal land is involved, such joinder must be approved by the Land Commissioner or A.O. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective as of the first day of the month following the filing with the Land Commissioner and A.O. of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Land Commissioner or the A.O., is duly made sixty (60) days after such filing.

SECTION 33. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing, specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the land within the described Unit Area. Furthermore, this Agreement shall extend to and be binding on the parties hereto, their successors, heirs and assigns.

SECTION 34. JOINDER IN DUAL CAPACITY. Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such party; provided, that if the party is the owner of a Working Interest, he must also execute the Unit Operating Agreement.

SECTION 35. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

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

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

If, as of the Effective Date hereof, any Tract is overproduced with respect to the allowable of the wells on that Tract and the amount of over-production has been sold or otherwise disposed of, such over-production shall be regarded as a part of the Unitized Substances produced after the Effective Date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

SECTION 38. NO SHARING OF MARKET. This Agreement is not intended to provide and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale or marketing of Unitized Substances.

SECTION 39. STATUTORY UNITIZATION. If and when Working Interest Owners owning at least seventy-five percent (75%) Unit Participation and Royalty Owners owning at least seventy-five percent (75%) Royalty Interest have become parties to this Agreement or have approved this Agreement in writing and such Working Interest Owners have also become parties to the Unit Operating Agreement, Unit Operator may make application to the Division for statutory unitization of the uncommitted interests pursuant to the Statutory Unitization Act (Chapter 65, Article 14, N.M.S. 1953 Annotated). If such application is made and statutory unitization is approved by the Division, then effective as of the date of the Division's order approving statutory unitization, this Agreement and/or the Unit Operating Agreement shall automatically be revised and/or amended in accordance with the following:

- (1) Section 14 of this Agreement shall be revised by substituting for the entire said section the following:

"SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, all Tracts within the Unit Area shall be entitled to participation in the production of Unitized Substances."

(2) Section 24 of this Agreement shall be revised by substituting for the first three paragraphs of said section the following:

"SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement, as amended (if any amendment is necessary) to conform to the Division's order; approval of this Agreement, as so amended, by the Land Commissioner; and the A.O. and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of Eddy County, New Mexico. Unit Operator shall not file this Agreement or notice thereof for record, and hence this Agreement shall not become effective, unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied, such filing is approved by Working Interest Owners owning a combined Unit Participation of at least sixty-five percent (65 %) as to all Tracts within the Unit Area.

"Unit Operator shall, within thirty (30) days after the Effective Date of this Agreement, file for record in the office of the County Clerk of Eddy County, New Mexico, a certificate to the effect that this Agreement has become effective in accordance with its terms, therein identifying the Division's order approving statutory unitization and stating the Effective Date."

(3) This Agreement and/or the Unit Operating Agreement shall be amended in any and all respects necessary to conform to the Division's order approving statutory unitization.

Any and all amendments of this Agreement and/or the Unit Operating Agreement that are necessary to conform said agreements to the Division's order approving statutory unitization shall be deemed to be hereby approved in writing by the parties hereto without any necessity for further approval by said parties, except as follows:

(a) If any amendment of this Agreement has the effect of reducing any Royalty Owner's participation in the production of Unitized Substances, such Royalty Owner shall not be deemed to have hereby approved the amended agreement without the necessity of further approval in writing by said Royalty Owner; and

(b) If any amendment of this Agreement and/or the Unit Operating Agreement has the effect of reducing any Working Interest Owner's participation in the production of Unitized Substances or increasing such Working Interest Owner's share of Unit Expense, such Working Interest Owner shall not be deemed to have hereby approved the amended agreements without the necessity of further approval in writing by said Working Interest Owner.

Executed as of the day and year first above written.

BEACH EXPLORATION, INC.

By: _____

Date of Execution:

STATE OF TEXAS

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this _____ day of _____, 2001, by, Robert N. Hinson, Vice President of Land, for/of Beach Exploration, Inc., a Texas corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

NON-OPERATORS:

KNG America, Inc.

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Wilna R. Achen

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Aline H. Amos

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Winifred H. Anderson

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Arthur C. Atkins

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Burton E. Atkins Estate

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

George E. Atkins, Jr.

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Rose Burton Atkins

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Hazel Sims Baldwin

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

William N. Beach, Ltd.

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Merlyne V. Bergstrom

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Brock Oil & Gas Corporation

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Thomas L. Brooks

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Broughton Petroleum Inc.

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Cleo & Sue Brown

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

William & Phyllis Bucholtz

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Harmon Bush

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Julie Calvart

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

John R. Carmony

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Chaparral Oil, Inc.

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Chase Oil Company

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Christopher K. Clark

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Eugene A. Coleman

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Margaret Irene Davey

Dated: _____

Attest _____

By: _____

Name & Title _____

C. R. Devine

Dated: _____

By: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Name & Title

SS or Tax ID

Beverly J. Durham

By: _____

Name & Title

SS or Tax ID

C R F Eckels

By: _____

Name & Title

SS or Tax ID

Eckels Family Trust

By: _____

Name & Title

SS or Tax ID

Nancy B. & C. B. Ellis Trust

By: _____

Name & Title

SS or Tax ID

Exxon Corporation

By: _____

Name & Title

SS or Tax ID

Featherstone Development Corp.

By: _____

Name & Title

SS or Tax ID

Aleece C. Francis

By: _____

Name & Title

SS or Tax ID

Barbara Frankenfield

By: _____

Name & Title

Dated: _____
Attest _____

Dated: _____
Attest _____

Dated: _____
Attest _____

Dated: _____
Attest _____

Dated: _____
Attest _____

Dated: _____
Attest _____

Dated: _____
Attest _____

Dated: _____
Attest _____

SS or Tax ID

Robert Franklin
By: _____

Name & Title

SS or Tax ID

Cara Lynn Gant
By: _____

Name & Title

SS or Tax ID

John W. Gates
By: _____

Name & Title

SS or Tax ID

Arnold M. Gaynor
By: _____

Name & Title

Magda R. Guilarte
By: _____

Name & Title

SS or Tax ID

H & S Oil L.L.C.
By: _____

Name & Title

SS or Tax ID

Elizabeth Hammack
By: _____

Name & Title

SS or Tax ID

Paul Hanger
By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest _____

Cindy I. Hart

By: _____

Name & Title

SS or Tax ID

Jeff Harvard

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Frederick Flint Herman

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Sam E. Hilburn

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Hinkle Investment Company

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Kenneth E. Hohne

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Phyllis Isles Estate

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Robert Iles

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Gary Ishibashi

Dated: _____

By: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Name & Title

SS or Tax ID

Jabo Rowland Construction Company Inc.

By: _____

Name & Title

SS or Tax ID

K & C Production Co. Inc.

By: _____

Name & Title

SS or Tax ID

John C. or Mary L. King J/T

By: _____

Name & Title

SS or Tax ID

Mitchell Robert Kirkpatrick

By: _____

Name & Title

T. A. Kirkpatrick

By: _____

Name & Title

SS or Tax ID

William H. Kirkpatrick

By: _____

Name & Title

SS or Tax ID

Edward C. Knox

By: _____

Name & Title

SS or Tax ID

Sally Lanning

By: _____

Name & Title

SS or Tax ID

Carlyn & E. Treece Lansford

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Fred Lemon Jr.

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Martha M. Ryan Lilly

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Lorenz O. Lutherer

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Rosabelle Malone

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Steve & Gail Marrs

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Marshall & Winston Inc.

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Louis M. Martinez, Jr.

Dated: _____

Attest _____

By: _____

Name & Title _____

McClellan Oil Corporation

Dated: _____
Attest _____

By: _____
Name & Title _____

SS or Tax ID _____

Jack L. & Barbara McClellan

Dated: _____
Attest _____

By: _____
Name & Title _____

SS or Tax ID _____

Lisa McClellan

Dated: _____
Attest _____

By: _____
Name & Title _____

SS or Tax ID _____

Mark & Paula McClellan

Dated: _____
Attest _____

By: _____
Name & Title _____

SS or Tax ID _____

G. K. McDonald

Dated: _____
Attest _____

By: _____
Name & Title _____

SS or Tax ID _____

Dan R. McGregor

Dated: _____
Attest _____

By: _____
Name & Title _____

SS or Tax ID _____

Alexandra Morris

Dated: _____
Attest _____

By: _____
Name & Title _____

SS or Tax ID _____

Robert E. Morris

Dated: _____
Attest _____

By: _____
Name & Title _____

SS or Tax ID _____

Pauline Nicholson

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

J. Norton Company

Dated: _____

Attest _____

By: _____

Name & Title _____

S. Howard Norton

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Norwood Oil Company

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Judith F. Oliphant

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Perlinda Ortiz

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

J. D. Pearce

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Ben Poir Estate

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID _____

Randolph M. Richardson

Dated: _____

Attest _____

By: _____

Name & Title _____

SS or Tax ID

Lucille Riley

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Amos Rivera

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Barri Roberts

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Suzanne C. & Richard Roberts

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Johnie P. Rose Estate Trust

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Judith L. Rose Estate Trust

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

S & M Oil Operations

Dated: _____

By: _____

Attest

Name & Title

Sam L. Setterlund

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Mike L. Shelton

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Samin I Sirmen Estate

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Paul Slayton

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Samuel A. Smith

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Janet C. Sower

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Daniel J. Spika

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Suntex Resources Inc.

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Bill G. Taylor

Dated: _____

Attest _____

By: _____

Name & Title

SS or Tax ID

Harvey R. Taylor

Dated: _____

By: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Dated: _____

Attest _____

Name & Title

SS or Tax ID

Deloris & Virgil Taylor

By: _____

Name & Title

SS or Tax ID

Joe and/or Terri Templeton

By: _____

Name & Title

SS or Tax ID

Sandra Terry

By: _____

Name & Title

SS or Tax ID

The Toles Company

By: _____

Name & Title

Larry R. Troublefiled S/P

By: _____

Name & Title

SS or Tax ID

David G. Tucker

By: _____

Name & Title

SS or Tax ID

Steven J. Tucker

By: _____

Name & Title

SS or Tax ID

Barbara Walker

By: _____

Name & Title

Dated: _____

Attest

Dated: _____

Attest

Dated: _____

Attest

Dated: _____

Attest

Dated: _____

Attest

Attest

Norman E. Wells
By: _____

Name & Title

SS or Tax ID

Kevin Whelan
By: _____

Name & Title

SS or Tax ID

Fred Whitaker
By: _____

Name & Title

SS or Tax ID

Annie L. Kirkpatrick Williams
By: _____

Name & Title

SS or Tax ID

Tena Williamson
By: _____

Name & Title

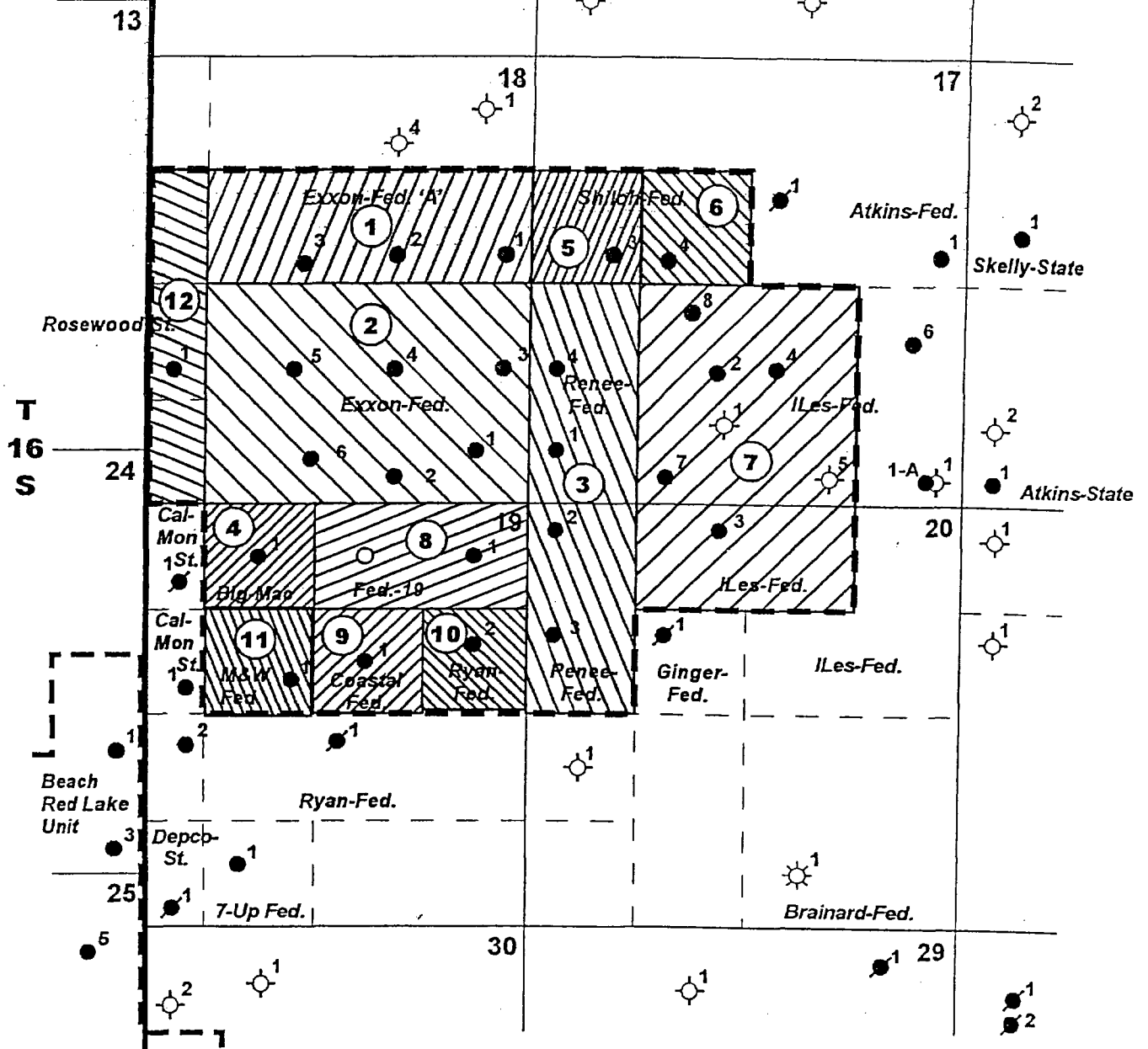
SS or Tax ID

Frank Zinser Jr.
By: _____

Name & Title

SS or Tax ID

R28E R29E



Tracts (1) - (11) 1080.0 Acres Federal Lands
 Tract (12) 76.6 Acres State Lands
 0.0 Acres Fee Lands
 1156.6 Acres Total Unit



Beach Exploration, Inc.

WEST HIGH LONESOME PENROSE SAND UNIT

EXHIBIT "A"
 Proposed Unit Outline
 Tract Number



Eddy County, New Mexico
 JVR

Scale: 1"=2000'
 October 2000

EXHIBIT "B"
West High Lonesome Unit
Eddy County, New Mexico

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners
1	Exxon Federal "A" Section 18: S/2 NE/4, SE/4 NW/4 T-16-S, R-29-E	120	NM-26072 HBP	USA	Exxon Corporation	1.00000000	Margaret Irene Davey Exxon Corporation John W. Gates Mitchell Robert Kirkpatrick T. A. Kirkpatrick William H. Kirkpatrick Sam L. Setterlund Annie L. Kirkpatrick Williams 0.00900000 0.07500000 0.00250000 0.00900000 0.00900000 0.00900000 0.00250000 0.00900000 Hazel Sims Baldwin Beach Exploration, Inc. William N. Beach, LTD Brock Oil & Gas Corp. Wm. & Phyllis Bucholtz Arnold Gaynor KNG America, Inc. G. K. McDonald J Norton Company S. Howard Norton Johnie P. Rose Estate Trust Judith L Rose Estate Trust S & M Oil Operations Samir I. Sirmen Estate 0.0312500 0.2011850 0.0968750 0.0993750 0.0100000 0.0312500 0.3688142 0.0312500 0.0387500 0.0200000 0.0100000 0.0100000 0.0100000 0.0312500 0.0200000
2	Exxon Federal Section 18: SE/4, E/2 SW/4 T-16-S, R-29-E	240	NM-26072 HBP	USA	Exxon Corporation	1.00000000	John R. Carmony Margaret Irene Davey C. R. Devine C. B. & Nancy B. Ellis Trust Exxon Corporation John W. Gates Mitchell Robert Kirkpatrick T. A. Kirkpatrick William H. Kirkpatrick Jr. Dan R. McGregor Sam L. Setterlund David G. Tucker Steven J. Tucker Annie L. Kirkpatrick Williams 0.00700000 0.00900000 0.00750000 0.00800000 0.05000000 0.00250000 0.00900000 0.00900000 0.00900000 0.00700000 0.00250000 0.00500000 0.00500000 0.00900000 Hazel Sims Baldwin Beach Exploration, Inc. William N. Beach, LTD Brock Oil & Gas Corp. Wm & Phyllis Bucholtz Arnold M. Gaynor KNG America, Inc. G. K. McDonald J Norton Company S. Howard Norton Johnie P. Rose Estate Trust Judith L. Rose Estate Trust S & M Oil Operations Samir I. Sirmen Estate 0.0312500 0.2011858 0.0968750 0.0993750 0.0100000 0.0312500 0.3688142 0.0312500 0.0387500 0.0200000 0.0100000 0.0100000 0.0100000 0.0312500 0.0200000
3	Renee Federal Section 17: W/2 SW/4	160	LC-046119 (a) HBP	USA	McClellan Oil Corporation	1.00000000	Cico Brown & Sue Brown Cara Lynn Gant 0.00037500 0.0023438 Beach Exploration, Inc. KNG America, Inc. 0.3520121 0.6453093

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners				
4	Section 20: W/2 NW/4 T-16-S, R-29-E	40	NM-57524 HBP	USA	Colin R. McMillan	Phyllis Iles Estate	0.0046875	Barbara Walker	0.0026786		
						Robert Iles	0.0023438				
						Carlyn & E Treece Lansford	0.0002679				
						Fred Lemon Jr.	0.0093750				
						Jack L & Barbara McClellan	0.0037500				
						Lisa McClellan	0.0007500				
						Mark & Paula S. McClellan	0.0007500				
						McClellan Oil Corporation	0.0371161				
						Pauline Nicholson	0.0093750				
						Randolph M. Richardson	0.0093750				
						Suzanne C. & Richard L. Roberts	0.0007500				
						Paul Slayton	0.0125000				
						Deloris & Virgil Taylor	0.0007500				
						The Toles Company	0.0053571				
5	Section 17: SW/4 NW/4 T-16-S, R-29-E	40	LC-062996(b)	USA	Tony K. Love, et al	K & C Production Co. Inc.	0.0187500	Beach Exploration, Inc. KNG America, Inc.	0.3529575 0.6470425		
						Jack L. & Barbara McClellan	0.0050000				
						Lisa C. McClellan	0.0004200				
						Mark & Paula S. McClellan	0.0004200				
						McClellan Oil Corporation	0.0250000				
						Suzanne C. & Richard L. Roberts	0.0004100				
						Arthur C. Atkins	0.0020833			Beach Exploration, Inc. KNG America, Inc. Steve & Gail Marrs Daniel J. Spika	0.3286423 0.6024677 0.0200000 0.0488900
						Burton E. Atkins Estate	0.0020833				
						George E. Atkins Jr.	0.0020833				
						Rose Burton Atkins	0.0062500				
						Featherstone Development Corp	0.0062500				
						Cara Lynn Gant	0.0011719				
						Hinkle Investment Company	0.0062500				
						Phyllis Iles Estate	0.0023438				
Robert Iles	0.0011719										
Gary Ishibashi	0.0500000										
Fred Lemon Jr.	0.0093750										
Pauline Nicholson	0.0046875										
Norwood Oil Company	0.1000000										
Fred Whitaker	0.0062500										

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners
6	Shaloh Federal #4 Section 17: SE/4 NW/4 T-16-S, R-29-E	40	LC-062996(b) HBP	USA 0.0290000	SunTex Resources, et al 1.0000000	Arthur C. Atkins Burton E. Atkins Estate George E. Atkins Jr. Rose Burton Atkins Featherstone Development Corp Cara Lynn Gant Hinkle Investment Company Phyllis Iles Estate Robert Iles Gary Ishibashi Fred Lemon Jr. Pauline Nicholson Norwood Oil Company Fred Whitaker	Beach Exploration, Inc. 0.2902793 Christopher K. Clark 0.0148140 Fredrick Flint Herman 0.0444420 KNG America, Inc. 0.4778267 Edward C. Knox 0.0148140 Louis M. Martinez Jr. 0.0148140 Judith F. Oliphant 0.0148140 Mike L. Shelton 0.0740750 Suntex Resources Inc. 0.0244930 Norman E. Wells 0.0148140 Kevin Whelan 0.0148140
7	Iles Federal Section 17: E/2 SW/4, W/2 SE/4 Section 20: NE/4 NW/4, NW/4 NE/4 T-16-S, R-29-E	240	LC-046119(a) HBP	USA 0.0130000	Chase Oil Corporation 1.0000000	Chase Oil Corporation Paul Slayton Fred Lemon Jr. Pauline Nicholson Cara Lyn Gant Robert Iles Phyllis Iles Estate	Beach Exploration, Inc. 0.3529575 KNG America, Inc. 0.6470425
8	Federal 19 Section 19: N/2 NE/4 T-16-S, R-29-E	80	NM-03361 HBP	USA 0.1250000	EOG Resources Inc. 1.0000000	Elizabeth Hammack Sandra Terry Susan Terry Barbara Frankenfild Robert Franklin Julie Calvart Ben Pior Estate Tena Williamson Sally Lanning Paul Hanger Sam E. Hilburn Robert E. Morris Alexandra C. Morris	Beach Exploration, Inc. 0.3529575 KNG America, Inc. 0.6470425

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners
12	<p>Rosewood State Section 18: Lots 2,3,4 T-16-S, R-29-E</p> <p>TOTAL FEDERAL ACRES</p> <p>TOTAL STATE ACRES</p> <p>TOTAL FEE ACRES</p> <p>TOTAL UNIT ACRES</p>	<p>1080.00</p> <p>76.60</p> <p>76.60</p> <p>0.00</p> <p>1156.60</p>	<p>V-616-3 HBP</p>	<p>State of NM</p> <p>0.1666670</p>	<p>Beach Exploration</p> <p>1.0000000</p>	<p>Broughton Petroleum Inc. John R. Carmony C. R.Devine C.B. & Nancy B. Ellis Trust Dan R. McGregor Steven J. Tucker</p>	<p>Hazel Sims Baldwin Beach Exploration, Inc. William N. Beach, LTD Brock Oil & Gas Corp. Broughton Petroleum Inc. Arnold M. Gaynor KNG America, Inc. G. K. McDonald J Norton Company S. Howard Norton Johnie P. Rose Estate Trust Judith L. Rose Estate Trust S & M Oil Operations Samir I. Simen Estate</p> <p>0.0180000 0.0070000 0.0037500 0.0080000 0.0070000 0.0100000</p> <p>0.0312500 0.0452930 0.0968750 0.1093750 0.5000000 0.0312500 0.0247070 0.0312500 0.0387500 0.0200000 0.0100000 0.0100000 0.0312500 0.0200000</p>

EXHIBIT "C"

TRACT PARTICIPATION WEST HIGH LONESOME PENROSE SAND UNIT Eddy County, New Mexico

UNITIZATION PARAMETER: Ultimate Primary Recovery

<u>TRACT</u>	<u>LEASE NAME</u>	<u>OPERATOR</u>	<u>ULTIMATE RECOVERY (BO)</u>	<u>TRACT PARTICIPATION (%)</u>
1	Exxon Federal "A"	Beach Expl.	34,082	6.13256%
2	Exxon Federal	Beach Expl.	186,313	33.52430%
3	Renee Federal	Beach Expl.	99,220	17.85319%
4	Big Mac Federal	Beach Expl.	13,004	2.33988%
5	Shiloh Federal #3	Beach Expl.	32,441	5.83728%
6	Shiloh Federal #4	Beach Expl.	11,033	1.98523%
7	Iles Federal	Beach Expl.	121,868	21.92837%
8	Federal 19	Beach Expl.	17,924	3.22516%
9	Coastal Federal	Beach Expl.	3,821	0.68753%
10	Ryan Federal	Beach Expl.	9,846	1.77164%
11	M&W Federal	H&S Oil LLC	25,322	4.55632%
12	Rosewood State	Beach Expl.	881	0.15852%
TOTAL			555,755	100.00000%

* Includes 13,880 barrels of reserves for undrilled interior location on west half of the Federal 19 lease.
(Ultimate primary for the eight surrounding wells = 83,809/ 8 wells = 13,880 BO)

UNIT OPERATING AGREEMENT

WEST HIGH LONESOME UNIT

EDDY COUNTY, NEW MEXICO

OCTOBER 1, 2000



UNIT OPERATING AGREEMENT
WEST HIGH LONESOME UNIT
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UNIT OPERATING AGREEMENT
WEST HIGH LONESOME UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of October, 2000, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto;

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled "UNIT AGREEMENT, WEST HIGH LONESOME UNIT", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined.

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

ARTICLE 1
CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2
EXHIBITS

- 2.1 EXHIBITS. The following exhibits are incorporated herein by reference:

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

2.1.2 EXHIBIT "D", attached hereto, is a schedule showing the Working Interest of each Working Interest Owner in each Tract, each Working Interest Owner's Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner. The Unit Participation shall be applicable for the respective periods of time provided in Section 24 of the Unit Agreement except where a different phase Tract Participation, Unit Participation, or voting interest is herein stated. Exhibit "D", or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of Working Interest Owners for purposes of this agreement until shown to be in error and 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.

- 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 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. When 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 pursuant to this agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely on its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

- 3.2 SPECIFIC AUTHORITY AND DUTIES. The matters with respect to which 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 operations, including the type or types of pressure maintenance, secondary recovery, or other enhanced recovery program to be employed on the Unit Area.
- 3.2.2 DRILLING OF WELLS. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.
- 3.2.3 WELL RECOMPLETIONS AND CHANGE OF STATUS. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.
- 3.2.4 EXPENDITURES. The making of any single expenditure in excess of thirty five thousand dollars (\$35,000); however, 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 well, including necessary flow lines, separators, and lease tankage.
- 3.2.5 DISPOSITION OF UNIT EQUIPMENT. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is twenty-five thousand dollars (\$25,000) or more. All dispositions will be made in accordance with Exhibit "E".
- 3.2.6 APPEARANCE BEFORE A COURT OR REGULATORY AGENCY. The designating of a representative to appear before any court or regulatory agency in matters pertaining to unit operations; however, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf and at its own expense.
- 3.2.7 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; and
 - (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator; or,
 - (c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit; and,
 - (d) be made upon not less than thirty (30) days written notice to Unit Operator; and
 - (e) be conducted in accordance with the Accounting Procedure, Exhibit "E", attached hereto.
- 3.2.8 INVENTORIES. The taking of periodic inventories under the terms of Exhibit "E".
- 3.2.9 TECHNICAL SERVICES. The authorizing of charges to the Joint Account for services by consultants or Unit Operator's technical personnel over ten thousand dollars (\$10,000) per occasion if not covered by the overhead charges provided by Exhibit "E".
- 3.2.10 ASSIGNMENT TO COMMITTEE. The appointment of committees to study any problems in connection with Unit Operations.
- 3.2.11 REMOVAL OF UNIT OPERATOR. The removal of Unit Operator and the selection of a successor.
- 3.2.12 ENLARGEMENT OF UNIT AREA. The enlargement of the Unit Area.
- 3.2.13 ADJUSTMENT AND READJUSTMENT OF INVESTMENTS. The adjustment and readjustment of investments.
- 3.2.14 TERMINATION OF UNIT AGREEMENT. The termination of the Unit Agreement.
- 3.2.15 AUDIT EXCEPTION. The settlement of unresolved audit exceptions.

ARTICLE 4
MANNER OF EXERCISING SUPERVISION

- 4.1 DESIGNATION OF REPRESENTATIVES. Each Working Interest Owner shall inform Unit Operator in writing 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 MEETING. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.
- 4.3 VOTING PROCEDURE. Working Interest Owners shall decide all matters coming before them as follows:
- 4.3.1 VOTING INTEREST. Each Working Interests Owner shall have a voting interest equal to its Unit Participation, which is in effect at the time the vote is taken.
- 4.3.2 VOTE REQUIRED. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of four or more Working Interest Owners having a combined voting interest of at least fifty percent (50%).
- 4.3.3 VOTE AT MEETING BY NONATTENDING WORKING INTEREST OWNER. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote at the meeting.
- 4.3.4 POLL VOTES. Working Interest Owners may vote on and decide, by letter or telegram, any matter after submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5
INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

- 5.1 RESERVATION OF RIGHTS. Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this agreement and the Unit Agreement.
- 5.2 SPECIFIC RIGHTS. Each Working Interest Owner shall have, among others, the following specific rights:
- 5.2.1 ACCESS TO UNIT AREA. Access to the Unit Area at such Working Interest Owner's own risk at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.
- 5.2.2 REPORTS. The right to receive from Unit Operator, upon written requests, 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 that requests information.
- 5.2.3 PREFERENTIAL RIGHT TO PURCHASE. Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Unit Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. Notwithstanding anything herein to the contrary, there shall be no preferential right to purchase in those cases where any party wishes to (a) mortgage or encumber its interests, (b) dispose of its interests by merger, reorganization or consolidation, (c) sell all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any such party owns a majority of the

stock, or (d) sell all or substantially all of its assets in an arms length transaction to an unrelated third party.

ARTICLE 6 UNIT OPERATOR

- 6.1 UNIT OPERATOR. Beach Exploration, Inc., is hereby designated as the Initial Unit Operator.
- 6.2 RESIGNATION OR REMOVAL/SELECTION OF SUCCESSOR. Sections 7 and 8 of the Unit Agreement shall govern the resignation or removal of Unit Operator and the selection of a successor Unit Operator and are incorporated herein by reference for all purposes.
- 6.3 [INTENTIONALLY LEFT BLANK].

ARTICLE 7 AUTHORITY 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.
- 7.2 WORKMANLIKE CONDUCT. Unit Operator shall conduct Unit Operations in good and workmanlike manner, as would a reasonably 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 any liability or damage, unless such resulted from gross negligence or willful misconduct.
- 7.3 LEINS AND ENCUMBRANCES. Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the lien and security interest of Unit Operator granted hereunder.
- 7.4 PROCEEDS OF PRODUCTION. Unit Operator shall have the right to receive one hundred percent (100%) of the proceeds attributable to production from the purchasers and disburse these proceeds to the Working Interest Owners and Royalty Owners; provided however, this provision shall not apply to any unitized substances taken in kind under Section 15 D. of the Unit Agreement.
- 7.5 EMPLOYEES. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees may be the employees of Unit Operator.
- 7.6 RECORDS. Unit Operator shall keep correct books, accounts and record of Unit Operations.
- 7.7 REPORTS TO WORKING INTEREST OWNERS. Unit Operator shall furnish Working Interest Owners periodic reports of Unit Operations.
- 7.8 REPORTS TO GOVERNMENTAL AUTHORITIES. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.
- 7.9 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.
- 7.10 EXPENDITURES. Unit Operator is authorized to make single expenditures not in excess of thirty five thousand dollars (\$35,000) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.
- 7.11 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 usual rates prevailing 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 with independent contractors doing work in a similar nature.
- 7.12 MATHEMATICAL ERRORS. It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the exhibits to this agreement.

- 7.13 BORDER AGREEMENTS. Unit Operator may, after approval by the Working Interest Owners, enter into border agreements with respect to land adjacent to the Unit Area for the purpose of coordinating operations.
- 7.14 INDEMNITIES. As to all contracts executed by the Unit Operator with an independent contractor governing operation or services to be performed in connection with unit operations, Unit Operator shall require that any indemnification provision in favor of Unit Operator contained therein shall extend to and inure to the benefit of Working Interest Owners in the same manner as Unit Operator.

Article 8
TAXES

- 8.1 AD VALOREM TAXES. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account of all Working Interest Owners; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom.
- 8.2 OTHER TAXES. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or with respect to the production or handling of its share of Unitized Substances.

ARTICLE 9
INSURANCE

- 9.1 INSURANCE. Unit Operator, with respect to Operations shall:
- (a) comply with the Workmen's Compensation law of the State; and,
 - (b) carry Employer's Liability and other insurance required by the laws of the State; and,
 - (c) provide other insurance as set forth in Exhibit "F".

ARTICLE 10
ADJUSTMENT OF INVESTMENTS

- 10.1 PERSONAL PROPERTY TAKEN OVER. Upon the Effective Date, Working Interest Owners shall deliver to Unit Operator the following:
- 10.1.1 WELLS. All wells, standing completions, abandoned wells and wells used for injection, completed in the Unitized Formation.
 - 10.1.2 WELL AND LEASE EQUIPMENT. The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conduction Unit Operations.
 - 10.1.3 RECORDS. A copy of all production and well records for such wells.
- 10.2 INVENTORY AND EVALUATION OF PERSONAL PROPERTY. 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 "E" except upon determination of Working Interest Owners, items considered noncontrollable may be included in the inventory in order to ensure a more equitable adjustment of investment.
- 10.3 INVESTMENT ADJUSTMENT. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with value of its interest in all personal property taken over under Section 10.1.2, and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be

paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

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

10.5 OWNERSHIP OF PERSONAL PROPERTY AND FACILITIES. Each Working Interest Owner, individually, shall by virtue hereof, own an undivided interest equal to its Unit Participation in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

ARTICLE 11 UNIT EXPENSE

11.1 BASIS OF CHARGE TO WORKING INTEREST OWNER. Unit Operator initially shall pay all expenses incurred in the development and operation of the Unit (herein sometimes referred to collectively as "Unit Expense"). Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation in effect at the time the expense was incurred. Working Interest Owners agree to reimburse Unit Operator for their proportionate part of all expenses incurred in the unitization process; i.e., engineering study, land services and legal fees, etc. (both related and third party charges at prevailing industry rates¹). All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "E".

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

11.3 ADVANCE BILLINGS. Unit Operator shall have the right without prejudice to other rights or remedies, 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 after receipt of the estimate, 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 quarter, and the accounts of Working Interest Owners shall be adjusted accordingly. Unit Operator shall not be required to commence any work on the Unit Area until the estimated Unit Expense has been paid in full.

11.4 COMMINGLING OF FUNDS. Any funds received by Unit Operator under this agreement need not be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 LIEN AND SECURITY INTEREST OF UNIT OPERATOR. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, in order to secure payment of its share of Unit Expense, together with interest thereon at the rate of prime plus two (2%) percent per annum. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgement by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any defaults. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

11.6 UNPAID UNIT EXPENSE. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement thereof 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

¹ See Copas for details.

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 DEEMED NON-CONSENT ELECTION. Should Operator propose to drill any well on the Unit Area to the unitized zone(s), or to rework, deepen, or plug back an existing well located thereon to the unitized zone(s) and a minimum of fifty percent (50%) of the Working Interest Owners approve such proposed operation, then Operator shall render a statement to all Working Interest Owners setting out their estimated share of the proposed operations cost. Working Interest Owners shall then remit payment for their share of the proposed operations cost within thirty (30) days after receipt of the statement. Should any Working Interest Owner fail or refuse to remit payment for their proportionate share of any proposed operations cost within the time limit above, then, in lieu of its right to seek recovery of such costs directly from such Working Interest Owner and the other parties under the provisions of this Article 11, Operator may, at its election by written notice to the other parties to this Agreement, declare the party failing or refusing to pay its share of such costs a non-consenting Working Interest Owner in the applicable operation(s), in which event the non-consenting Working Interest Owner shall be deemed to have relinquished to the consenting Working Interest Owners, and the consenting Working Interest Owners shall own and be entitled to receive, in proportion to their respective interests, all of such non-consenting Working Interest Owner's interest in the well and share of production therefrom. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty, and other interests not excepted by Section 11.8, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) equals the following:

- (a) five hundred percent (500%) of each such non-consenting Working Interest Owner's share of the costs of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment, and pipe), plus five hundred percent (500%) of each such non-consenting Working Interest Owner's share of the cost of operation of the well commencing with first production and continuing until each such non-consenting party's relinquished interest shall revert to it under other provisions of this article, it being agreed that each non-consenting party's share of such costs and equipment will be that interest which would have been chargeable to such non-consenting Working Interest Owner had it paid its share of cost from the beginning of the operations; and,
- (b) five hundred percent (500%) of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received, and five hundred percent (500%) of that portion of the cost on newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such non-consenting Working Interest Owner if it had paid its share of costs.

A party who is deemed a non-consenting Working Interest Owner in an operation, as provided herein, shall be deemed a non-consenting party in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial default applied that is conducted at any time prior to full recovery by the consenting parties of the non-consenting party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and the shall be added to the sums to be recouped by the consenting parties five hundred percent (500%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such non-consenting party if it paid as provided herein. If such a reworking plugging back operation is proposed during such recoupment period, the provisions of this article shall be applicable as between said consenting parties in said well.

During the period of time consenting parties are entitled to receive a non-consenting party's share of production, or the proceeds therefrom, the consenting parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to said non-consenting party's share of production (other than subsequently created burdens, as provided in Section 11.8).

If and when the consenting parties recover from a non-consenting party's relinquished interest in amounts provided for above, the relinquished interest of such non-consenting party shall automatically revert to it, and from and after such reversion, such non-consenting party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such non-consenting party would have been entitled to had it paid as provided hereinabove for the drilling, reworking, deepening, or plugging back of said well. Thereafter, such non-consenting party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting procedure attached hereto.

11.8 CARVED-OUT INTEREST. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net profits interest, carried interest, or any other

interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Sections 11.5 and 11.7 hereof. If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interests were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Sections 11.5 and 11.7 for the purpose of collecting the Unit Expense chargeable to the carved-out interest, or (c) if such carved-out interest is conveyed to more than four parties, one of said parties shall be appointed as agent for all of said parties under this agreement and Unit Operator shall be furnished the name of the designated agent in writing.

- 11.9 UNCOMMITTED ROYALTY. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreements, the difference to be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participations at the time the Unitized Substances were produced; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-fourth (1/4) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the Joint Account.

ARTICLE 12 NONUNITIZED 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, such Working Interest owner shall exercise care 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 be affected adversely.

ARTICLE 13 TITLE

- 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 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 because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net proceeds that have 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 7:00 A.M. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of a title failure.
- 13.2 FAILURE BECAUSE OF UNIT OPERATIONS. The failure of title to any Working Interest Owner in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the Working Interest Owners at the time of the title failure.
- 13.3 TITLE EXAMINATION. Unit Operator is hereby authorized to conduct such title examination and title curative work on any Tract or Tracts (whether owned by Unit Operator or any other Working Interest Owner) as it deems necessary or advisable from time to time for purposes of preventing any title failure because of Unit Operations; and each Working Interest Owner who owns any interest in any such Tract agrees to cooperate in such title examination and agrees to furnish to Unit Operator all records affecting title, including and not limited to Title Opinions and Abstracts of Title, that may be in such Working Interest Owner's possession or control. All costs and expenses incurred in such title examination and curative work conducted for said purposes shall be treated as a direct charge to the Joint Account under Unit Expense.

ARTICLE 14 LIABILITY, CLAIM AND SUITS

14.1 INDIVIDUAL LIABILITY. The duties, obligations and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners. Each party hereto shall be individually responsible for its own obligations as herein provided.

14.2 SETTLEMENTS. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed twenty five thousand dollars (\$25,000), provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item or Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner sued on account of any matter arising from Unit Operations 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 Unit Operator and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

14.3 INDEMNIFICATION OF UNIT OPERATOR. The Working Interest Owners agree to indemnify and hold harmless the Unit Operator from each of the following losses:

- (a) bankruptcy or misappropriation of funds by a drilling contractor to whom a prepayment of intangible drilling costs has been paid for a well to be drilled in a subsequent year. The loss of such prepayment shall constitute an individual loss to the parties making such prepayment;
- (b) any adverse loss or tax consequence incurred as a result of a tax court or any other governmental agency not allowing the deduction of any intangible investment, for any reason.

ARTICLE 15 LAWS AND REGULATIONS

15.1 INTERNAL REVENUE PROVISION. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and the operations hereunder shall not constitute a partnership, if for federal income tax purposes this agreement and the operations hereunder are regarded as a Partnership, then each of the parties hereto hereby elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by the way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1 (a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Unit Area is located, or any future income tax law of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agree to make such election as may be permitted or required by such laws. In making this election, each of the parties states that the income derived by such party from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

15.2 GOVERNMENTAL FINES, PENALTIES. All fines, interest, penalties, etc., leveled by the Department of Energy or other governing authority shall be paid for out of the Joint Account. Furthermore, if the DOE determines an overcharge has occurred, each party agrees to pay to Unit Operator his share of the overcharge. Unit Operator shall forward this payment to the Agency. If any Overriding Royalty Interest or Royalty Interest Owner refuses to pay his share of the overcharge; then (1) his share of the overcharge shall be charged to the Joint Account; and, (2) if he later pays his share, either with cash or production, the Joint Account will be reimbursed.

ARTICLE 16 NOTICES

16.1 NOTICES. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.1 of this agreement.

ARTICLE 17
WITHDRAWAL OF WORKING INTEREST OWNER

- 17.1 WITHDRAWAL. A Working Interest Owner may withdraw from this agreement by assigning, without warranty of title, either express or implied, to the other Working Interest Owners all its Oil and Gas Leasehold Estate as to the Unitized Formation, together with its interest in all Unit Equipment and in all wells used in Unit Operations. The instrument of assignment may be delivered to Unit Operator for the transferees. Such assignment shall not relieve the withdrawing Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the assignment. The interest assigned shall be owned by the remaining Working Interest Owners in proportion to their respective Unit Participation. The assignees, in proportion to their respective interest so acquired, shall pay assignor, for its interest in Unit Equipment, the net salvage value thereof as determined by Working Interest Owners. After the date of delivery of the assignment, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest assigned.

ARTICLE 18
ABANDONMENT OF WELLS

- 18.1 RIGHTS OF FORMER OWNERS. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within thirty (30) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico.
- 18.2 PLUGGING. If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico with the expense of plugging be charged to the joint account.

ARTICLE 19
EFFECTIVE DATE AND TERM

- 19.1 EFFECTIVE DATE. This agreement shall become effective when the Unit Agreement becomes effective. Upon its effective date, this Unit Operating Agreement shall supercede and supplant any and all previously existing operating agreements covering the Unitized Formation, or any portion thereof.
- 19.2 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 plugged and abandoned or turned over to Working Interest Owners in accordance with Article 18 and Article 20; and, (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 20
ABANDONMENT OF OPERATIONS

- 20.1 TERMINATION. Upon termination of the Unit Agreement, the following will occur:
- 20.1.1 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.
- 20.1.2 RIGHT TO OPERATE. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, as determined by Working Interest Owners, of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico.

20.1.3 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.

20.1.4 PLUGGING AND ABANDONING WELLS. The responsibility and expense of plugging and abandoning all wells not taken over by individual Working Interest Owners pursuant to Paragraph 20.1.2 hereof, shall be borne by the Working Interest Owners. It is expressly understood that upon termination of this Unit Agreement, the responsibility and expense of plugging wells in compliance with all applicable laws and regulations shall rest with all of the Working Interest Owners of the Unit.

20.1.5 DISTRIBUTION OF ASSETS. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participation.

ARTICLE 21 RIGHTS OF WAY AND EASEMENTS

21.1 ASSIGNMENT TO UNIT OPERATOR. Each Working Interest Owner having rights of way, easements or leasehold interest in surface sites necessary for Unit Operations hereby agrees to assign, to the extent of its right and interest, to Unit Operator for the benefit of the Working Interest Owners, a non-exclusive right and interest in and to such interest. A Working Interest Owner having such an interest shall, within one hundred eighty (180) days after the Effective Date execute and deliver to Unit Operator, in recordable form, an assignment of such rights and interests, together with copies of the instruments creating such interests and any maps or plats further describing and depicting the affected premises.

21.2 RENTAL PAYMENTS. The owners of such interest agree to make any rental payments or other payments which may become due to avoid termination of any such interest for failure to make such payment prior to thirty (30) days beyond the date formal assignment of such interest to Unit Operator is accomplished as described in Section 21.1 above. Any payments made under this paragraph shall be a direct charge under Unit Expense.

21.3 RIGHTS OF UNIT OPERATOR. Such interest described in Section 21.1 above, shall continue in Unit Operator for so long as such are used for Unit Operators and Units released by recordable instrument. In the event the initial Unit Operator ceases to be such Unit Operator, it shall assign such rights and interests to the succeeding Unit Operator.

ARTICLE 22 EXECUTION

22.1 ORIGINAL, COUNTERPART OR OTHER INSTRUMENT. An owner of a Working Interest may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

ARTICLE 23 SUCCESSORS AND ASSIGNS

23.1 SUCCESSORS AND ASSIGNS. This agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

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

OPERATOR:

Beach Exploration, Inc.

Dated: _____

By: _____

Attest _____

Name & Title

NON-OPERATORS:

Dated: _____
Attest _____

KNG America, Inc.
By: _____
Name & Title _____
SS or Tax ID _____

Wilna R. Achen

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

Aline H. Amos

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

Winifred H. Anderson

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

Hazel Sims Baldwin

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

William N. Beach, Ltd.

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

Brock Oil & Gas Corporation

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

Thomas L. Brooks

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

Broughton Petroleum Inc.

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

William & Phyllis Bucholtz

Dated: _____
Attest _____

By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____ _____ Attest	Harmon Bush By: _____ _____ Name & Title _____ SS or Tax ID _____ Christopher K. Clark
Dated: _____ _____ Attest	By: _____ _____ Name & Title _____ SS or Tax ID _____ Eugene A. Coleman
Dated: _____ _____ Attest	By: _____ _____ Name & Title _____ SS or Tax ID _____ Aleece C. Francis
Dated: _____ _____ Attest	By: _____ _____ Name & Title _____ SS or Tax ID _____ Arnold M. Gaynor
Dated: _____ _____ Attest	By: _____ _____ Name & Title _____ SS or Tax ID _____ Magda R. Guilarte
Dated: _____ _____ Attest	By: _____ _____ Name & Title _____ SS or Tax ID _____ H & S Oil L.L.C.
Dated: _____ _____ Attest	By: _____ _____ Name & Title _____ SS or Tax ID _____ Cindy I. Hart
Dated: _____ _____ Attest	By: _____ _____ Name & Title _____ SS or Tax ID _____ Jeff Harvard
Dated: _____ _____ Attest	By: _____ _____ Name & Title _____ SS or Tax ID _____ Frederick Flint Herman
Dated: _____ _____ Attest	By: _____ _____ Name & Title _____ SS or Tax ID _____ Kenneth E. Horne
Dated: _____ _____ Attest	By: _____ _____ Name & Title _____ SS or Tax ID _____

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest

John C. or Mary L. King J/T
By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest

Edward C. Knox
By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest

Lorenz O. Lutherer
By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest

Rosabelle Malone
By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest

Steve & Gail Marrs
By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest

Louis M. Martinez, Jr.
By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest

G. K. McDonald
By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest

Perlinda Ortiz
By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest

J. Norton Company
By: _____

Name & Title

SS or Tax ID

Dated: _____

Attest

S. Howard Norton
By: _____

Name & Title

SS or Tax ID

Dated: _____
Attest _____

Judith F. Oliphant
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

J. D. Pearce
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Lucille Riley
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Amos Rivera
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Barri Roberts
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Johnie P. Rose Estate Trust
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Judith L. Rose Estate Trust
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

S & M Oil Operations
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Mike L. Shelton
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Samin I Sirmen Estate
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Samuel A. Smith
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Daniel J. Spika
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Suntex Resources Inc.
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Bill G. Taylor
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Harvey R. Taylor
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Joe and/or Terri Templeton
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Larry R. Troublefield S/P
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Barbara Walker
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Norman E. Wells
By: _____
Name & Title _____
SS or Tax ID _____

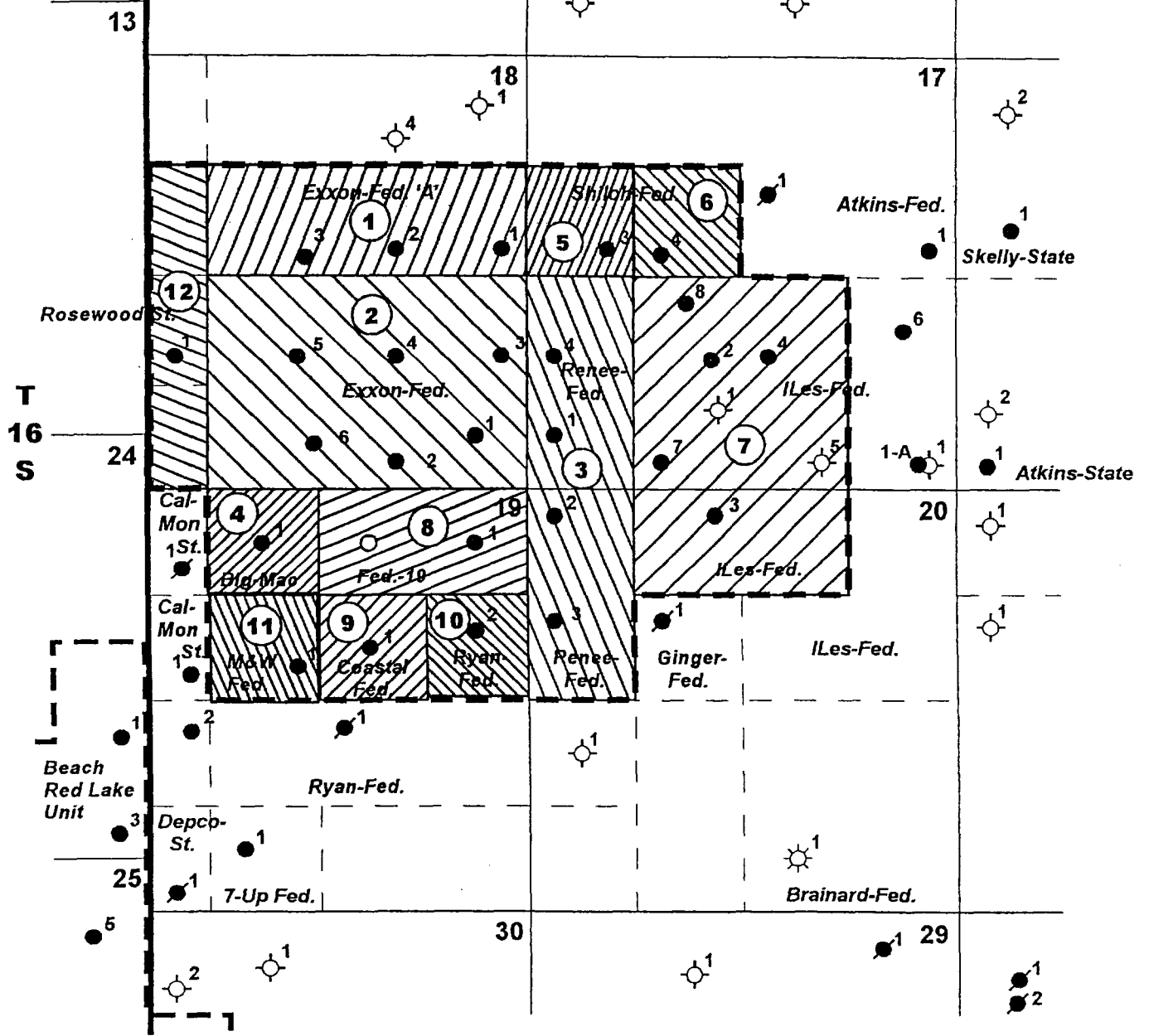
Dated: _____
Attest _____

Kevin Whelan
By: _____
Name & Title _____
SS or Tax ID _____

Dated: _____
Attest _____

Frank Zinser Jr.
By: _____
Name & Title _____

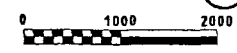
R28E R29E



Tracts ① – ⑪ 1080.0 Acres Federal Lands
Tract ⑫ 76.6 Acres State Lands
0.0 Acres Fee Lands
1156.6 Acres Total Unit



**WEST HIGH LONESOME
PENROSE SAND UNIT**
EXHIBIT "A"
Proposed Unit Outline
Tract Number ①



Eddy County, New Mexico Scale: 1"=2000'
JMR October 2000

EXHIBIT "B"
West High Lonesome Unit
Eddy County, New Mexico

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners
1	Exxon Federal "A" Section 18: S/2 NE/4, SE/4 NW/4 T-16-S, R-29-E	120	NM-26072 HBP	USA	Exxon Corporation	1.0000000 Margaret Irene Davey Exxon Corporation John W. Gates Mitchell Robert Kirkpatrick T. A. Kirkpatrick William H. Kirkpatrick Sam L. Setterlund Annie L. Kirkpatrick Williams	Hazel Sims Baldwin Beach Exploration, Inc. William N. Beach, LTD Brock Oil & Gas Corp. Wm. & Phyllis Bucholtz Arnold Gaynor KNG America, Inc. G. K. McDonald J Norton Company S. Howard Norton Johnie P. Rose Estate Trust Judith L. Rose Estate Trust S & M Oil Operations Samin I. Sirmen Estate
						0.0090000 0.0750000 0.0025000 0.0090000 0.0090000 0.0090000 0.0025000 0.0090000	0.0312500 0.2011858 0.0968750 0.0993750 0.0100000 0.0312500 0.3688142 0.0312500 0.0387500 0.0200000 0.0100000 0.0100000 0.0312500 0.0200000
2	Exxon Federal Section 18: SE/4, E/2 SW/4 T-16-S, R-29-E	240	NM-26072 HBP	USA	Exxon Corporation	1.0000000 John R. Carmony Margaret Irene Davey C. R. Devine C. B. & Nancy B. Ellis Trust Exxon Corporation John W. Gates Mitchell Robert Kirkpatrick T. A. Kirkpatrick William H. Kirkpatrick Jr. Dan R. McGregor Sam L. Setterlund David G. Tucker Steven J. Tucker Annie L. Kirkpatrick Williams	Hazel Sims Baldwin Beach Exploration, Inc. William N. Beach, LTD Brock Oil & Gas Corp. Wm & Phyllis Bucholtz Arnold M. Gaynor KNG America, Inc. G. K. McDonald J Norton Company S. Howard Norton Johnie P. Rose Estate Trust Judith L. Rose Estate Trust S & M Oil Operations Samin I. Sirmen Estate
						0.0070000 0.0090000 0.0075000 0.0080000 0.0500000 0.0025000 0.0090000 0.0090000 0.0090000 0.0070000 0.0025000 0.0050000 0.0050000 0.0090000	0.0312500 0.2011858 0.0968750 0.0993750 0.0100000 0.0312500 0.3688142 0.0312500 0.0387500 0.0200000 0.0100000 0.0100000 0.0312500 0.0200000
3	Renee Federal Section 17: W/2 SW/4	160	LC-046119 (a) HBP	USA	McClellan Oil Corporation	1.0000000 Cleo Brown & Sue Brown Cara Lynn Gant	Beach Exploration, Inc. KNG America, Inc.
						0.0003750 0.0023438	0.3520121 0.6453093

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners
	Section 20: W/2 NW/4 T-16-S, R-29-E					Phyllis Iles Estate Robert Iles Carlyn & E Treece Lansford Fred Lemon Jr. Jack L & Barbara McClellan Lisa McClellan Mark & Paula S. McClellan McClellan Oil Corporation Pauline Nicholson Randolph M. Richardson Suzanne C. & Richard L. Roberts Paul Slayton Deloris & Virgil Taylor The Toles Company	Barbara Walker 0.0026786
4	Big Mac Federal Section 19: NE/4 NW/4 T-16-S, R-29-E	40	NM-57524 HBP	USA	Colin R. McMillan	1.0000000 K & C Production Co. Inc. Jack L. & Barbara McClellan Lisa C. McClellan Mark & Paula S. McClellan McClellan Oil Corporation Suzanne C. & Richard L. Roberts	Beach Exploration, Inc. KNG America, Inc. 0.3529575 0.6470425
5	Shiloh Federal #3 Section 17: SW/4 NW/4 T-16-S, R-29-E	40	LC-062996(b)	USA	Tony K. Love, et al	1.0000000 Arthur C. Atkins Burton E. Atkins Estate George E. Atkins Jr. Rose Burton Atkins Featherstone Development Corp Cara Lynn Gant Hinkle Investment Company Phyllis Iles Estate Robert Iles Gary Ishibashi Fred Lemon Jr. Pauline Nicholson Norwood Oil Company Fred Whitaker	Beach Exploration, Inc. KNG America, Inc. Steve & Gail Marrs Daniel J. Spika 0.3286423 0.6024677 0.0200000 0.0488900

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners
6	Shiloh Federal #4 Section 17: SE/4 NW/4 T-16-S, R-29-E	40	LC-062996(b) HBP	USA	SunTex Resources, et al	Arthur C. Atkins Burton E. Atkins Estate George E. Atkins Jr. Rose Burton Atkins Featherstone Development Corp Cara Lynn Gant Hinkle Investment Company Phyllis Iles Estate Robert Iles Gary Ishibashi Fred Lemon Jr. Pauline Nicholson Norwood Oil Company Fred Whitaker	Beach Exploration, Inc. Christopher K. Clark Fredrick Flint Herman KNG America, Inc. Edward C. Knox Louis M. Martinez Jr. Judith F. Oliphant Mike L. Shelton Suntex Resources Inc. Norman E. Wells Kevin Whelan
						0.0020833 0.0020833 0.0020833 0.0062500 0.0062500 0.0011719 0.0062500 0.0023438 0.0011719 0.0500000 0.0093750 0.0046875 0.1000000 0.0062500	0.2902793 0.0148140 0.0444420 0.4778267 0.0148140 0.0148140 0.0148140 0.0740750 0.0244930 0.0148140 0.0148140
7	Iles Federal Section 17: E/2 SW/4, W/2 SE/4 Section 20: NE/4 NW/4, NW/4 NE/4 T-16-S, R-29-E	240	LC-046119(a) HBP	USA	Chase Oil Corporation	Chase Oil Corporation Paul Slayton Fred Lemon Jr. Pauline Nicholson Cara Lyn Gant Robert Iles Phyllis Iles Estate	Beach Exploration, Inc. KNG America, Inc.
						0.1000000 0.0130000 0.0187500 0.0093750 0.0023438 0.0023438 0.0046875	0.3529575 0.6470425
8	Federal 19 Section 19: N/2 NE/4 T-16-S, R-29-E	80	NM-03361 HBP	USA	EOG Resources Inc.	Elizabeth Hammack Sandra Terry Susan Terry Barbara Frankensfield Robert Franklin Julie Calvart Ben Pior Estate Tena Williamson Sally Launing Paul Hanger Sam E. Hilburn Robert E. Morris Alexandra C. Morris	Beach Exploration, Inc. KNG America, Inc.
						0.0043750 0.0062500 0.0062500 0.0062500 0.0043750 0.0187500 0.0052083 0.0052083 0.0052083 0.0052083 0.0043750 0.0021875 0.0021875	0.3529575 0.6470425

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners
12	TOTAL FEDERAL ACRES	1080.00					
	Rosewood State	76.60	V-616-3	State of	Beach Exporation	Broughton Petroleum Inc.	Hazel Sims Baldwin
	Section 18: Lots 2,3,4 T-16-S, R-29-E		HBP	NM		John R. Carmony	Beach Exploration, Inc.
						C. R. Devine	William N. Beach, LTD
						C.B. & Nancy B. Ellis Trust	Brock Oil & Gas Corp.
						Dan R. McGregor	Broughton Petroleum Inc.
						Steven J. Tucker	Arnold M. Gaynor
							KNG America, Inc.
							G. K. McDonald
							J Norton Company
							S. Howard Norton
							Johnie P. Rose Estate Trust
							Judith L. Rose Estate Trust
							S & M Oil Operations
							Samin I. Sirmen Estate
	TOTAL STATE ACRES	76.60					0.0312500
	TOTAL FEE ACRES	0.00					0.0452930
	TOTAL UNIT ACRES	1156.60					0.0968750
							0.1093750
							0.5000000
							0.0312500
							0.0247070
							0.0312500
							0.0387500
							0.0200000
							0.0100000
							0.0100000
							0.0312500
							0.0200000

EXHIBIT "C"

TRACT PARTICIPATION
WEST HIGH LONESOME PENROSE SAND UNIT
Eddy County, New Mexico

UNITIZATION PARAMETER: Ultimate Primary Recovery

<u>TRACT</u>	<u>LEASE NAME</u>	<u>OPERATOR</u>	<u>ULTIMATE RECOVERY (BO)</u>	<u>TRACT PARTICIPATION (%)</u>
1	Exxon Federal "A"	Beach Expl.	34,082	6.13256%
2	Exxon Federal	Beach Expl.	186,313	33.52430%
3	Renee Federal	Beach Expl.	99,220	17.85319%
4	Big Mac Federal	Beach Expl.	13,004	2.33988%
5	Shiloh Federal #3	Beach Expl.	32,441	5.83728%
6	Shiloh Federal #4	Beach Expl.	11,033	1.98523%
7	Iles Federal	Beach Expl.	121,868	21.92837%
8	Federal 19	Beach Expl.	17,924	3.22516%
9	Coastal Federal	Beach Expl.	3,821	0.68753%
10	Ryan Federal	Beach Expl.	9,846	1.77164%
11	M&W Federal	H&S Oil LLC	25,322	4.55632%
12	Rosewood State	Beach Expl.	881	0.15852%
TOTAL			555,755	100.00000%

* Includes 13,880 barrels of reserves for undrilled interior location on west half of the Federal 19 lease.
(Ultimate primary for the eight surrounding wells = 83,809/ 8 wells = 13,880 BO)

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

EXHIBIT "D"
Tract - Working Interest

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
Tract - Working Interest	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
Achen, Wilna R.											0.01500000	
Amos, Aline H.											0.01000000	
Anderson, Winifred											0.01000000	
Baldwin, Hazel Sims	0.03125000	0.03125000										0.03125000
Beach Exploration, Inc.	0.20118572	0.20118572	0.35201197	0.35295740	0.32864216	0.29027927	0.35295740	0.35295740	0.35295740	0.35295740		0.02470702
Beach, William N., LTD	0.09687500	0.09687500										0.09687500
Brock Oil & Gas Corp.	0.09937500	0.09937500										0.10937500
Brooks, Thomas L.											0.02000000	
Broughton Petroleum Inc.												0.50000000
Bucholtz, Wm. & Phyllis	0.01000000	0.01000000									0.02000000	
Bush, Harmon						0.01481400						
Clark, Christopher K.											0.02000000	
Coleman, Eugene A.											0.02000000	
Francis, Aleece C.											0.02000000	
Gaynor, Arnold M.	0.03125000	0.03125000										0.03125000
Guillarte, Magda R.											0.01500000	
H & S Oil LLC											0.36000000	
Hart, Cindy I.											0.02000000	
Hart, Jeff						0.04444200					0.01000000	
Herman, Fredrick Flint											0.02000000	
Hohne, Kenneth E.											0.02000000	
Jabo Rowland Constr Co Inc.												
KNG America, Inc.	0.36881428	0.36881428	0.64530943	0.64704260	0.60246784	0.47782673	0.64704260	0.64704260	0.64704260	0.64704260	0.01500000	0.04529298
King J/T, John C. or Mary L.												
Knox, Edward C.						0.01481400					0.02500000	
Lutherer, Lorenz O.											0.01000000	
Malone, Rosabelle					0.02000000							
Marrs, Steve & Gail												
Martinez, Louis M. Jr.						0.01481400						0.03125000
McDonald, G. K.	0.03125000	0.03125000										0.03875000
Norton, J Company	0.03875000	0.03875000										0.02000000
Norton, S. Howard	0.02000000	0.02000000										
Oliphant, Judith F.						0.01481400						
Ortiz, Perlinda											0.02000000	

EXHIBIT "D"
Tract - Working Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
Tract - Working Interest	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
Pearce, J. D.											0.04000000	
Riley, Lucille											0.01000000	
Rivera, Amos											0.01000000	
Robertis, Barri											0.02000000	
Rose, Johnie P. Estate Trust	0.01000000	0.01000000										0.01000000
Rose, Judith L. Estate Trust	0.01000000	0.01000000										0.01000000
S & M Oil Operations	0.03125000	0.03125000										0.03125000
Shelton, Mike L.						0.07407500						
Sirmen, Samin I. Estate	0.02000000	0.02000000									0.02000000	
Smith, Samuel A.											0.02000000	
Spika, Daniel J.					0.04889000							
Suntex Resources Inc.						0.02449300						
Taylor, Bill G.											0.14000000	
Taylor, Harvey R.											0.02000000	
Templeton, Joe and/or Terri											0.05000000	
Troublefield, Larry R. S/P											0.02000000	
Walker, Barbara			0.00267860									
Wells, Norman E.						0.01481400						
Whelan, Kevin						0.01481400						
Zinser Jr., Frank											0.04000000	

1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000

EXHIBIT "D"
WHLPSU - Working Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
Tract - Working Interest	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
1 Achen, Wilna R.											0.0006834	
1 Amos, Aline H.											0.0004556	
1 Anderson, Winifred											0.0004556	
1 Baldwin, Hazel Sims	0.00191642	0.01047635										0.00004954
1 Beach Exploration, Inc.	0.01233783	0.06744611	0.06284537	0.00825878	0.01918378	0.00576270	0.07739780	0.01138345	0.00242670	0.00625315		0.00003917
1 Beach, William N., LTD	0.00594092	0.03247667										0.00015357
1 Brock Oil & Gas Corp.	0.00609423	0.03331478										0.00017338
1 Brooks, Thomas											0.00091126	
1 Broughton Petroleum Inc.												0.00079262
1 Bucholtz, Wm. & Phyllis	0.00061326	0.00335243										
1 Bush, Harmon											0.00091126	
1 Clark, Christopher K.						0.00029409						
1 Coleman, Eugene A.											0.00091126	
1 Francis, Aleece C.											0.00091126	
1 Gaynor, Arnold M.	0.00191642	0.01047635										0.00004954
1 Guilarte, Magda R.											0.00068345	
1 H & S Oil LLC											0.01640277	
1 Hart, Cindy I.											0.00091126	
1 Harvard, Jeff											0.00045563	
1 Herman, Fredrick Flint						0.00088227						
1 Hohne, Kenneth E.											0.00091126	
1 Jabo Rowland Constr Co Inc											0.00091126	
1 KNG America, Inc.	0.02261775	0.12364242	0.11520832	0.01514002	0.03516776	0.00948595	0.14188588	0.02086817	0.00444863	0.01146329		0.00007180
1 King J/T, John C. or Mary L.											0.00068345	
1 Knox, Edward C.						0.00029409						
1 Lutherer, Lorenz O.											0.00113908	
1 Malone, Rosabelle											0.00045563	
1 Marrs, Steve & Gail					0.00116746							
1 Martinez, Louis M. Jr.						0.00029409						
1 McDonald, G. K.	0.00191642	0.01047635										0.00004954
1 Norton, J Company	0.00237637	0.01299067										0.00006143
1 Norton, S. Howard	0.00122651	0.00670486										0.00003170
1 Oliphant, Judith F.												
1 Ortiz, Perlinda						0.00029409					0.00091126	

EXHIBIT "D"
WHLPSU - Working Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
Tract - Working Interest	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
1 Pearce, J. D.	0.00182253										0.00182253	
1 Riley, Lucille	0.00045563										0.00045563	
1 Rivera, Amos	0.00045563										0.00045563	
1 Roberts, Barri	0.00091126										0.00091126	
1 Rose, Johnie P. Estate Trust	0.00398154	0.00335243										0.00001585
1 Rose, Judith L. Estate Trust	0.00398154	0.00335243										0.00001585
1 S & M Oil Operations	0.01244231	0.01047635										0.00004954
1 Shelton, Mike L.	0.00147056					0.00147056						
1 Simmen, Samin I. Estate	0.00796308	0.00670486									0.00003170	
1 Smith, Samuel A.	0.00091126										0.00091126	
1 Spika, Daniel J.	0.00285385				0.00285385							
1 Suntutex Resources Inc.	0.00048624					0.00048624						
1 Taylor, Bill G.	0.00637885										0.00637885	
1 Taylor, Harvey R.	0.00091126										0.00091126	
1 Templeton, Joe and/or Terri	0.00227816										0.00227816	
1 Troublefield, Larry R. S/P	0.00091126										0.00091126	
1 Walker, Barbara	0.00047822		0.00047822									
1 Wells, Norman E.	0.00029409					0.00029409						
1 Whelan, Kevin	0.00029409					0.00029409						
1 Zinser Jr., Frank	0.00182253										0.00182253	

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

EXHIBIT "D"
Tract - Net Revenue Interest

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
Tract - NRI	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
Achen, Wilna R.											0.01233000	
Amos, Aline H.											0.00822000	
Anderson, Winifred H.											0.00822000	
Atkins, Arthur C.					0.00208330	0.00208330						
Atkins, Burton E. Estate					0.00208330	0.00208330						
Atkins, George E. Jr.					0.00208330	0.00208330						
Atkins, Rose Burton					0.00625000	0.00625000						
Baldwin, Hazel Sims	0.02618750	0.02504530										0.02447917
Beach Exploration, Inc.	0.16859363	0.16902512	0.31228171	0.32789742	0.25338311	0.22380532	0.29524883	0.28207179	0.29789605	0.29824900		0.01935383
Beach, William N., LTD	0.08118120	0.07763750										0.07588543
Bergstrom, Merlyne V.											0.00100000	
Brock Oil & Gas Corp.	0.08327630	0.07964310									0.01644000	0.08557708
Brooks, Thomas L.												
Broughton Petroleum Inc.												0.40591630
Brown, Cleo & Sue			0.00037500									
Bucholtz, Wm. & Phyllis	0.00838000	0.00801440										
Bush, Harmon											0.01644000	
Calvart, Julie								0.01875000				
Carmony, John R.		0.00700000										0.00700000
Chaparral Oil, Inc.									0.13500000			
Chase Oil Corporation							0.10000000					
Clark, Christopher K.						0.01142159					0.01644000	
Coleman, Eugene A.												
Davey, Margaret Irene	0.00900000	0.00900000										0.00375000
Devine, C. R.		0.00750000									0.00300000	
Durham, Beverly J.											0.00500000	
Eckels, C. R. F.											0.04000000	
Eckels Family Trust												0.00800000
Ellis, C. B. & Nancy B. Trust	0.00800000	0.00800000										
Exxon Corporation	0.07500000	0.05000000										
Featherstone Development Corp					0.00625000	0.00625000					0.01644000	
Francis, Aleece C.												

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

EXHIBIT "D"
Tract - Net Revenue Interest

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
Tract - NRI	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
Frankenfield, Barbara								0.00625000				
Franklin, Robert								0.00437500				
Gant, Cara Lynn			0.00234380		0.00117190	0.00117190	0.00234380					
Gates, John W.	0.00250000	0.00250000										
Gaynor, Arnold M.	0.02618750	0.02504530										
Guilarte, Magda R.												0.02447917
H & S Oil LLC											0.01027500	
Hammack, Elizabeth								0.00437500			0.30414000	
Hanger, Paul								0.00520834				
Hart, Cindy I.												
Harvard, Jeff											0.01644000	
Herman, Fredrick Flint											0.00822000	
Hilburn, Sam E.						0.03426479						
Hinkle Investment Company					0.00625000	0.00625000		0.00437500				
Hohne, Kenneth E.											0.01644000	
Iles, Phyllis Estate			0.00468750		0.00234380	0.00234380	0.00468750					
Iles, Robert			0.00234380		0.00117190	0.00117190	0.00234380					
Ishibashi, Gary					0.05000000	0.05000000						
Jabo Rowland Constr Co Inc.											0.01644000	
K & C Production Co. Inc.				0.01875000								
Kirkpatrick, Mitchell Robert	0.00900000	0.00900000										
Kirkpatrick, T. A.	0.00900000	0.00900000										
Kirkpatrick, William H.	0.00900000	0.00900000										
King J/T, John C. or Mary L.											0.01233000	
KNG America, Inc.	0.30906637	0.30985738	0.57247581	0.60110258	0.46450270	0.36840441	0.54125107	0.51709488	0.54610395	0.54675100		0.03547951
Knox, Edward C.						0.01142159						
Lanning, Sally								0.00520833				
Lansford, Carlyn & E. Treece			0.00026790									
Lemon, Fred Jr.			0.00937500		0.00937500	0.00937500	0.01875000					
Lily, Martha M. Ryan										0.03000000		
Lutherer, Lorenz O.											0.02260500	
Malone, Rosabelle											0.00822000	

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

EXHIBIT "D"
Tract - Net Revenue Interest

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
Tract - NRI	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
Marrs, Steve & Gail					0.01542000							
Marshall & Winston Inc.						0.01142159					0.07500000	
Martinez, Louis M. Jr.			0.03711610	0.02500000								
McClellan Oil Corporation			0.00375000	0.00500000								
McClellan, Jack L. & Barbara			0.00075000	0.00042000								
McClellan, Lisa			0.00075000	0.00042000								
McClellan, Mark & Paula	0.02618750	0.02504530										0.02447917
McDonald, G. K.		0.00700000										0.00700000
McGregor, Dan R.								0.00218750				
Morris, Alexandra								0.00218750				
Morris, Robert E.												
Nicholson, Pauline			0.00937500		0.00468750	0.00468750	0.00937500					
NM, State of												0.16666700
Norton, J Company	0.03247250	0.03105520										0.03035416
Norton, S. Howard	0.01676000	0.01602870										0.01566667
Norwood Oil Company					0.10000000	0.10000000						
Oliphant, Judith F.						0.01142159					0.01644000	
Ortiz, Perlinda											0.03288000	
Pearce, J. D.								0.00520833				
Pior, Ben Estate												
Richardson, Randolph M.			0.00937500								0.00822000	
Riley, Lucille											0.00822000	
Rivera, Amos											0.01644000	
Roberts, Barri												
Roberts, Suzanne C. & Richard			0.00075000	0.00041000								
Rose, Johnie P. Estate Trust	0.00838000	0.00801435										0.00783334
Rose, Judith L. Estate Trust	0.00838000	0.00801435										0.00783333
S & M Oil Operations	0.02618750	0.02504530										0.02447917
Setterlund, Sam L.	0.00250000	0.00250000										
Shelton, Mike L.						0.05711184						
Sirmen, Samin I. Estate	0.01676000	0.01602870										0.01566667
Slayton, Paul			0.01250000				0.01300000					

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

EXHIBIT "D"
Tract - Net Revenue Interest

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
Tract - NRI	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
Smith, Samuel A.											0.01644000	
Sower, Janet C.											0.00100000	
Spika, Daniel J.					0.03769419							
Suntex Resources Inc.						0.01888410						
Taylor, Bill G.											0.10686000	
Taylor, Deloris & Virgil			0.00075000									
Taylor, Harvey R.											0.01644000	
Templeton, Joe and/or Terri											0.04110000	
Terry, Sandra								0.00625000				
Terry, Susan								0.00625000				
The Toles Company			0.00535710									
Troublefield, Larry R. S/P											0.01644000	
Tucker, David G.		0.00500000										
Tucker, Steven J.		0.00500000										
USA	0.03700000	0.03700000	0.01300000	0.02100000	0.02900000	0.02900000	0.01300000	0.12500000	0.02100000	0.12500000	0.05300000	0.01000000
Walker, Barbara			0.00237628									
Wells, Norman E.						0.01142159						
Whelan, Kevin						0.01142159						
Whitaker, Fred					0.00625000	0.00625000						
Williams, Annie L. Kirkpatrick	0.00900000	0.00900000										
Williamson, Tena								0.00520833				
Zinser Jr., Frank											0.03288000	

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EXHIBIT "D"
WHLPSU - Net Revenue Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
WHLPSU - NRI	Total											
Achen, Wilna R.	0.00056179										0.00056179	
Amos, Aline H.	0.00037453										0.00037453	
Anderson, Winifred	0.00037453										0.00037453	
Atkins, Arthur C.	0.00016297				0.00012161	0.00004136						
Atkins, Burton E. Estate	0.00016297				0.00012161	0.00004136						
Atkins, George E. Jr.	0.00016297				0.00012161	0.00004136						
Atkins, Rose Burton	0.00048891				0.00036483	0.00012408						
Baldwin, Hazel Sims	0.01004103	0.00839626										0.00003881
Beach Exploration, Inc.	0.23086524	0.05666450	0.05575225	0.00767241	0.01479069	0.00444304	0.06474325	0.00909727	0.00204813	0.00528391		0.00003068
Beach, William N., LTD	0.03112621	0.02602743										0.00012030
Bergstrom, Merlyne V.	0.00004556										0.00004556	
Brock Oil & Gas Corp.	0.03194258	0.02669980									0.00074906	0.00013582
Brooks, Thomas L.	0.00074906											
Broughton Petroleum Inc.	0.00064347											0.00064347
Brown, Cleo & Sue	0.00006695		0.00006695									
Bucholtz, Wm. & Phyllis	0.00320068	0.00268677										
Bush, Harmon	0.00074906										0.00074906	
Calvart, Julie	0.00060472							0.00060472				
Carmony, John R.	0.00235780	0.00234670										0.00001110
Chaparral Oil, Inc.	0.00092817								0.00092817			
Chase Oil Corporation	0.02192837						0.02192837					
Clark, Christopher K.	0.00022674				0.00022674							
Coleman, Eugene A.	0.00074906										0.00074906	
Davey, Margaret Irene	0.00356912	0.00301719										
Devine, C. R.	0.00252027	0.00251432										0.00000594
Durham, Beverly J.	0.00013669										0.00013669	
Eckels, C. R. F.	0.00022782										0.00022782	
Eckels Family Trust	0.00182253										0.00182253	
Ellis, C. B. & Nancy B. Trust	0.00269463	0.00268194										0.00001268
Exxon Corporation	0.02136157	0.01676215										
Featherstone Development Corp	0.00048891				0.00036483	0.00012408						
Francis, Aleece C.	0.00074906										0.00074906	

EXHIBIT 'D'

WHLPSU - Net Revenue Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
WHLPSU - NRI	Total							0.00020157				
Frankenfield, Barbara	0.00020157							0.00014110				
Franklin, Robert	0.00014110											
Gant, Cara Lynn	0.00102407		0.00041844		0.00006841	0.00002326	0.00051396					
Gates, John W.	0.00099142	0.00015331	0.00083811									
Gaynor, Arnold M.	0.01004103	0.00160596	0.00839626									0.00003881
Guilarte, Magda R.	0.00046816										0.00046816	
H & S Oil LLC	0.01385760										0.01385760	
Hammack, Elizabeth	0.00014110							0.00014110				
Hanger, Paul	0.00016798							0.00016798				
Hart, Cindy I.	0.00074906										0.00074906	
Harvard, Jeff	0.00037453										0.00037453	
Herman, Fredrick Flint	0.00068023					0.00068023						
Hilburn, Sam E.	0.00014110					0.00012408		0.00014110				
Hinkle Investment Company	0.00048891											
Hohne, Kenneth E.	0.00074906										0.00074906	
Iles, Phyllis Estate	0.00204810		0.00083687		0.00013681	0.00004653	0.00102789					
Iles, Robert	0.00102407		0.00041844		0.00006841	0.00002326	0.00051396					
Ishibashi, Gary	0.00391126				0.00291864	0.00099261						
Jabo Rowland Constr Co Inc.	0.00074906										0.00074906	
K & C Production Co. Inc.	0.00043873			0.00043873								
Kirkpatrick, Mitchell Robert	0.00356912	0.00055193	0.00301719									
Kirkpatrick, T. A.	0.00356912	0.00055193	0.00301719									
Kirkpatrick, William H.	0.00356912	0.00055193	0.00301719									
King JT, John C. or Mary L.	0.00056179										0.00056179	
KNG America, Inc.	0.42239154	0.01895368	0.10387753	0.01406508	0.02711434	0.00731366	0.11868752	0.01667715	0.00375465	0.00968648		0.00005624
Knox, Edward C.	0.00022674					0.00022674						
Lanning, Sally	0.00016798							0.00016798				
Lansford, Carolyn & E. Treece	0.00004783		0.00004783									
Lemon, Fred Jr.	0.00651867		0.00167374		0.00054725	0.00018612	0.00411157					
Lily, Martha M. Ryan	0.00053149									0.00053149		
Lutherer, Lorenz O.	0.00102996										0.00102996	
Malone, Rosabelle	0.00037453										0.00037453	

EXHIBIT "D"
WHLPSU - Net Revenue Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
WHLPSU - NRI	Total				0.00090011						0.00341724	
Marrs, Steve & Gail	0.00090011											
Marshall & Winston Inc.	0.00341724											
Martinez, Louis M. Jr.	0.00022674				0.00022674							
McClellan Oil Corporation	0.00721138		0.00662641	0.00058497								
McClellan, Jack L. & Barbara	0.00078649		0.00066949	0.00011699								
McClellan, Lisa	0.00014373		0.00013390	0.00000983								
McClellan, Mark & Paula	0.00014373		0.00013390	0.00000983								0.00003881
McDonald, G. K.	0.01004103	0.00839626										0.00001110
McGregor, Dan R.	0.00235780	0.00234670						0.00007055				
Morris, Alexandra	0.00007055							0.00007055				
Morris, Robert E.	0.00007055											
Nicholson, Pauline	0.00409620		0.00167374		0.00027362	0.00009306	0.00205578					
NM, State of	0.00026421											0.00026421
Norton, J Company	0.01245055	0.01041104										0.00004812
Norton, S. Howard	0.00642616	0.00537351										0.00002484
Norwood Oil Company	0.00782251				0.00583728	0.00198523						
Oliphant, Judith F.	0.00022674					0.00022674					0.00074906	
Ortiz, Perlinda	0.00074906										0.00149812	
Pearce, J. D.	0.00149812							0.00016798				
Pior, Ben Estate	0.00016798											
Richardson, Randolph M.	0.00167374		0.00167374									
Riley, Lucille	0.00037453										0.00037453	
Rivera, Amos	0.00037453										0.00037453	
Roberts, Barri	0.00074906										0.00074906	
Roberts, Suzanne C. & Richard	0.00014349		0.00013390	0.00000959								
Rose, Johnie P. Estate Trust	0.00051391	0.00268676										0.00001242
Rose, Judith L. Estate Trust	0.00051391	0.00268676										0.00001242
S & M Oil Operations	0.01004103	0.00839626										0.00003881
Setterlund, Sam L.	0.00099142	0.00083811										
Shelton, Mike L.	0.00113380					0.00113380						
Sirnen, Samin I. Estate	0.00102782	0.00537351										0.00002484
Slayton, Paul	0.00508234		0.00223165				0.00285069					

EXHIBIT "D"
WHLPSU - Net Revenue Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number	1	2	3	4	5	6	7	8	9	10	11	12
WHLPSU - NRI	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
Smith, Samuel A.	0.00074906										0.00074906	
Sower, Janet C.	0.00004556										0.00004556	
Spika, Daniel J.	0.00220032				0.00220032							
Suntex Resources Inc.	0.00037489					0.00037489						
Taylor, Bill G.	0.00486889										0.00486889	
Taylor, Deloris & Virgil	0.00013390		0.00013390									
Taylor, Harvey R.	0.00074906										0.00074906	
Templeton, Joe and/or Terri	0.00187265										0.00187265	
Terry, Sandra	0.00020157							0.00020157				
Terry, Susan	0.00020157							0.00020157				
The Toles Company	0.00095641		0.00095641									
Troublefield, Larry R. S/P	0.00074906										0.00074906	
Tucker, David G.	0.00167622	0.00167622										
Tucker, Steven J.	0.00169207	0.00167622										
USA	0.00226905	0.01240399	0.00232091	0.00049137	0.00169281	0.00057572	0.00285069	0.00403145	0.00014438	0.00221455	0.00241485	0.00001585
Walker, Barbara	0.00042424		0.00042424									
Wells, Norman E.	0.00022674					0.00022674						
Whelan, Kevin	0.00022674					0.00022674						
Whitaker, Fred	0.00048891				0.00036483	0.00012408						
Williams, Annie L. Kirkpatrick	0.00356912	0.00055193	0.00301719									
Williamson, Tena	0.00016798							0.00016798				
Zinser, Frank Jr.	0.00149812										0.00149812	

1.00000000 0.06132558 0.33524305 0.17853191 0.02339880 0.05837284 0.01985227 0.21928368 0.03225162 0.00687533 0.01771644 0.04556324 0.00158523

EXHIBIT " E "

Attached to and made a part of Unit Operating Agreement dated, October 1, 2000,
By and Between BEACH EXPLORATION, INC., Operator, and
KNG America, Inc., et. al. as Non-Operator.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at The Chase Manhattan, New York on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- ~~(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.~~
- SEE PAGE 8
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

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

5. Material

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

6. Transportation

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

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

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

7. Services

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

8. Equipment and Facilities Furnished By Operator

~~A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed _____ percent (____%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.~~

B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property ~~less 20%~~. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

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

10. Legal Expense

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

11. Taxes

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 3,500.00
 (Prorated for less than a full month)
 and injector
 Producing Well Rate \$ 375.00

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

~~B. Overhead - Percentage Basis~~

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

~~(a) Development~~~~Percent () % of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.~~~~(b) Operating~~~~Percent () % of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~~~(2) Application of Overhead - Percentage Basis shall be as follows:~~~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.~~

2. Overhead - Major Construction

TO BE NEGOTIATED

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

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

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

3. Catastrophe Overhead

TO BE NEGOTIATED

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

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

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

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

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

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
 - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

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

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

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

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

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

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

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Inventories

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

3. Labor (Continued from page 2.hereof)

A. (4) The charges for Operator's first level supervisor and technical employees temporarily assigned to the joint property will be as follows:

(a)Field Foremen (drilling or production) at \$300 per day plus expenses.

(b)Engineer, Geologists or other degreed professionals at \$350 per day plus expenses.

Should any conflict arise between the rates charged in the foregoing paragraph and any other portion of Exhibit "C" hereof, the rates prescribed in the above Paragraph 3.A. (4)(a) and (b) shall prevail.

Said rates shall be subject to the escalation clauses described in Article III., Paragraph 1.A. (3), at Page 4 of this Exhibit "C".

EXHIBIT "F"

Attached to and made a part of the certain Operating Agreement dated, October 1, 2000,
by and between Beach Exploration, Inc. Operator and KNG America, Inc.
_____, as Non-Operator.

INSURANCE PROVISIONS

- 1) At all times during the conduct of operations hereunder, Beach Exploration, Inc. (Operator) shall maintain in force the following minimum limits of insurance at the expense of, and for the benefit of the joint account:
 - A) Workers' Compensation Insurance in accordance with the laws of the states in which operations are conducted under this Agreement.
 - B) Comprehensive General Public Liability with \$1,000,000 for general aggregate, \$1,000,000 for each occurrence and \$1,000,000 products-completed operations liability.
 - C) Automobile Liability Insurance covering owned, non-owned and hired automobiles with a combined single limit of \$1,000,000 per occurrence.
 - D) Excessive Liability (Umbrella) Policy with \$5,000,000 limit.
- 2) Operator shall carry no other Insurance for the benefit of the joint account.
- 3) Any Party may at its own expense acquire such other insurance as it deems necessary to protect itself against any claims, losses, damages or destruction arising out of operations of the joint property. In lieu of obtaining an insurance policy, a Party may elect to self-insure.
- 4) In the event of a loss not covered by the insurance provided for in Number 1) above, such loss shall be charged to the joint account and borne by the parties in proportion to their respective interest in the joint property.
- 5) Operator shall require all contractors and sub-contractors working or performing services hereunder to carry workers compensation, employers' liability, auto liability and general liability and such other insurance, as Operator deems necessary.

EXHIBIT "G"

Attached to and made a part of the Operating Agreement dated, October 1, 2000,
by and between Beach Exploration, Inc. as Operator and KNG America, Inc.,
as Non-Operator.

NON-DISCRIMINATION AND CERTIFICATION OF NON-SEGREGATED FACILITIES

EQUAL EMPLOYMENT OPPORTUNITY

During the performance of the contract described above, Contractor agrees to the following additional terms and conditions to the extent they may be applicable to the work to be performed under such contract in accordance with the provisions of the following described Executive Orders, Acts and implementing rules and regulations issued thereunder.

A. E. O. 11246, as amended by E.O. 11375 (Race, Color, Religion, Sex and National Origin)

1. If the contract is in excess of \$10,000, the Contractor agrees to comply with the provisions of Section 202 of such Order (the "Equal Opportunity Clause") which clause is incorporated herein by reference pursuant to the regulations promulgated under such Order (41 C.F.R. sec. 60-1.4(d)).

2. If the contract is in excess of \$10,000 the Contractor certifies that it does not maintain or provide, nor will it maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit nor will it permit its employees to perform their services at any location under its control, where segregated facilities are maintained.* Contractor agrees that a breach of this certification is a violation of the Equal Opportunity Clause of Executive Order 11246. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontractors exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files; and that it will forward the prescribed notice to such proposed subcontractors (except where the proposed subcontractor have submitted identical certifications for specific time periods).**

* As used in this certification, the term "Segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color or national origin because of habit, local custom or otherwise.

** The form of prescribed notice is as follows: NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certificate of Nonsegregated Facilities, as required by the May 9, 1967 order on Elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually or annually). Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.

3. If the contract is in excess of \$50,000 and the Contractor has more than 50 employees, the Contractor agrees (1) to file annually on or before March 31 of each year, (or within 30 days after the award of such contract if not filed within 12 months preceding the date of the award), complete and accurate reports on Standard Form 100 (EEO-1) with the appropriate governmental agency, in accordance with the regulations issued by the Secretary of Labor (41 C.F.R. Sec. 60-1.7), and (b) to develop a written affirmative action compliance program for each of its establishments in accordance with the regulations issued by the Secretary of Labor (41 C.F.R. Sec. 60-1.40).

B. E.O. 11701 (Section 402-Veterans Readjustment Act of 1974)

If the contract is in excess of \$10,000, the Contractor agrees to comply with the affirmative action clause and regulations promulgated under such Order (41 C.F.R. Part 60-250) which clause is incorporated herein by reference pursuant to Section 60-250.22 of such regulations.

C. E.O. 11758 (Section 503-Rehabilitation Act of 1973)

If the contract is in excess of \$2,500, the Contractor agrees to comply with the affirmative action clause and the regulations promulgated under such Order (41 C.F.R. Part 60-741), which clause is incorporated herein by reference pursuant to Section 60 - 741.22 of such regulations.

D. E.O. 11625 (Minority Business Enterprises)