

UNIT AGREEMENT

SOUTH LUCKY LAKE QUEEN UNIT

COUNTY OF CHAVES

STATE OF NEW MEXICO

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CHAVES COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SOUTH LUCKY LAKE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of Nov., 1983, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "Parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of workings, royalty or other oil or 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 Sections 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 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 (Sec. 3, Chap. 88, Laws 1943 as amended by Section 1 of Chap. 162, Laws of 1951, Chap. 7, Art 11, Sec. 39, N.M.S. 1953 Ann.) to consent to or approve this Agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws of 1943, as amended by Sec. 1, Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 41, N.M.S. and 1953 Ann.) to amend with the approval of the lessee, 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 unitized development and operation of State lands; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chap. 72, Laws of 1935, as amended by Chap. 193, Laws of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949) to approve this agreement, and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the South Lucky Lake Queen Unit covering the land hereinafter described to give reasonably effective control of operation therein; and

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

NOW, THEREFORE, in consideration of the premises herein contained, the parties hereto commit to this Agreement their respective interests in the unitized formation of 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 and 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 pur-

pose 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 880 acres, more or less, in Chaves County, New Mexico.

(b) "Land Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(c) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.

(d) "Director" is defined as the bureau of Land Management.

(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 State of America.

(g) "Authorized Officer" is defined as District Manager of the Bureau of Land Management for the area in which the Unit Area is situated.

(h) "Unitized Formation" shall mean that subsurface portion of the Unit Area commonly known as the "Queen Formation, and which is the same formation that was encountered between the logged depths of 1750' (subsea elevation of +2105') and 1800' (subsea elevation of +2055') in Dalport Oil Corporation's Jones Federal #2 as shown on the Western Company Gamma Neutron log of said well dated April 12, 1976, which well is located 990' FSL and 330' FWL of Section 22, T-15-S, R-29-E, Chaves County, New Mexico.

(i) "Unitized Substances" are all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within and produced from the Unitized Formation, of the Unitized Land.

(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 "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 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, 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 reserved to the original lessor or other party in or right to receive a portion of the Unitized Substances or the proceeds thereof, but does not include any overriding royalty interest, oil payment interest, net profit contracts, or any other payments or burdens 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, South Lucky Lake Queen Unit, Chaves County, 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 pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

(y) "Overriding Royalty Interest" is an interest in or right to receive a portion of the Unitized Substances or the proceeds therefrom as an overriding royalty interest, oil payment interest, net profits contracts, or any other payment or burden, exclusive of a Royalty Interest, which does not carry with it the right to search for or produce Unitized Substances.

SECTION 3. EXHIBITS. 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" attached hereto shows the Tract Participation of each Tract in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibit "D" attached hereto is the provisions of paragraphs 1 through 7 of Section 202 of Executive Order 11246 as amended. Exhibits, "A", "B", and "C" shall be revised by the Unit Operator whenever changes in the Unit Area render such revision necessary or when requested by the Authorized Officer, and copies of such revision shall be filed with the Land Commissioner, and not less than five copies shall be filed with the Authorized Officer. 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 relative 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 Authorized Officer, 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

calandar 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 Authorized Officer. 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 when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement. Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into 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 Owner's meeting or otherwise) if at least three Working Interest Owners having in the aggregate seventy-five percent (75%) Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, the Unit Operator shall:

(1) After obtaining preliminary concurrence by the Director, or his authorized officer and the 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 the Land Commissioner, the Authorized officer, each Working Interest Owner and to the 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 Authorized Officer 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 32, *infra*; and (d) A copy of all objections received along with the operators response thereto.

The expansion shall, after due consideration of all pertinent information and approval by the Land Commissioner and the Authorized Officer, become effective as of the date prescribed in the notice thereof, preferably the first day of a 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. Burk Royalty Co. 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 interests 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.

The interest of Working Interest Owners and the Unit Operator in the Unit Area shall be subject to a reciprocal lien and security interest 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 Authorized Officer 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 resignation or removal of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation or removal.

The Unit Operator shall be subject to removal by Working Interest Owners having in the aggregate seventy percent (70%) or more 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 Supervisor.

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 and owned by the Working Interest Owners to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing 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 Authorized Officer. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or the Director, 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 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. Cost and expenses incurred by Unit Opera-

tions 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 Authorized Officer 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 which are necessary or conven-

ient 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 the 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. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a Plan of Operation by the Working Interest Owners, the Authorized Officer the Land Commissioner and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gases and any one or more other substances or combination of substances whether produced from the Unitized Land or not, and that the location of input wells and the rates of injection therein shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. 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 Authorized Officer, the Land Commissioner and the Commission concurrently with the filing of this Agreement for final approval. Said initial Plan of Operation and all revisions thereof shall be as complete and adequate as the Authorized Officer, the Land Commissioner and the Commission may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement and the initial plan by the Authorized Officer 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 operation. 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 operation of an improved recovery project incorporating the injection of water within one (1) year after the effective date of this Agreement, or any extension thereof approved by the Authorized Officer and the Land Commissioner, this Agreement shall terminate automatically as of the date of default.

SECTION 12. USE OF SURFACE AND USE OF WATER. The

parties have to the extent of their rights and interests, hereby granted to Unit Operator the right to use as much of the surface of the Unitized Land as may reasonably be necessary for Unit Operations; provided that nothing herein shall be construed as leasing or otherwise conveying to the the Unit Operator a site for water, gas injection or other plants or camp site.

Unit Operator shall have free use of water or brine or both from the Unitized Land for Unit Operations, except 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 Owner for damages to growing crops, timber, fences, improvements and structures on the Unitized Land that result from Unit Operations.

SECTION 13. TRACT PARTICIPATION. Tract Participation

was determined by the following formula:

$$1/3 A/B + 1/3 C/D + 1/3 E/F$$

A = Acre-Feet of originally productive oil reservoir from each Tract.

B = Acre-Feet of originally productive oil reservoir from Unit Area.

C = Cumulative oil production from each tract through the month of June, 1982.

D = Cumulative oil production from unit thru the month of June 1982.

E = Present oil production from each tract for the first six months of 1982.

F = Present oil production from unit for 1st six months of 1982.

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 highway 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) Working Interest Owners, including the Working Interest Owner who operates the Tract, owning a total of seventy-five percent (75%) or more of the Working Interest in such Tract that is committed to this agreement have joined in a request for the inclusion of such tract in the Unit Area, and as to which (2) Working Interest Owners having seventy-five percent (75%) or more 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. (3) As to leases issued by the United States of America the Joinder to this Agreement by the lessee of record shall supplant Joinder of the Royalty Interest.

(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) Working Interest Owners, including the Working Interest Owner who operates the Tract, owning a total of seventy-five percent (75%) or more of the Working Interest in such Tract that is committed to this Agreement have joined in a request for inclusion of such Tract in the Unit Area, and have executed and delivered, or obligated themselves to execute and deliver, an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands 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 in the Unit Area; and as to which (2) Working Interest Owners having seventy-five percent (75%) or more 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 in the Unit Area, the Tract Participations which would have been attributed to the non-subscribing 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 Authorized Officer, 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 out in Section 13 (Tract Participation) above. This schedule of participation shall be revised Exhibit "C" and upon approval thereof by the Land Commissioner and the Authorized Officer 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 Authorized Officer.

SECTION 15. 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 Supervisor) 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 "C". 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, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on unitized land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. 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 responsible therefor under the controlling lease or contract. In the event any Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation currently as and when produced, 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 on a day-to-day basis, 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 therein, 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 31 (Loss of Title), the schedule of participation as shown in Exhibit "C" shall be revised by the Unit Operator; and the revised Exhibit "C", upon approval by the Land Commissioner and the Supervisor, shall govern the allocation of production on and after the effective date thereof until a revised schedule is approved as hereinabove provided. In any such revised Exhibit "C", pursuant to this paragraph, the Tract Participation of the previously qualified Tracts shall remain in the same ratio one to the other.

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, the Commission, and the Authorized Officer, 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, the Commission, and the Authorized Officer 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 their 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 United Substances allocated to the respective Tract or Tracts committed hereto, in lieu of actual production from such Tract or Tracts.

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 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 interests of all parties shall be adjusted accordingly.

SECTION 18. RENTAL SETTLEMENT. Rentals or minimum

Royalties due on 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

appropriate and adequate 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 Authorized Officer and the Land Commissioner,

is hereby empowered to enter into a border line 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. 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 sub-leases 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 part or separately owned Tract subject to this Agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in 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 on all unitized lands pursuant to direction or consent of the Land Commissioner and the Secretary, or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract of unitized lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this Agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the 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 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 22. 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 23. 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 Authorized Officer, the Land Commissioner and the Commission, and the filing of this Agreement or notice thereof in the Office of the County Clerk of the County in which the Unit Area is situated.

If this Agreement does not become effective on or before November 1, 1985, it shall ipso facto expire on said date (hereinafter called "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 Phase Participation of at least eighty percent (80%) and at least seventy-five percent (75%) of such Working interest committed to this Agreement have decided to extend said expiration date for a period not to exceed six months (hereinafter called "extended expiration date"). If said expiration date is so extended and this Agreement does not become effective on or before said extended expiration date, it shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect.

Unit Operator shall file for record within thirty (30) days after the Effective Date of this Agreement, in the

office where a counter part of this Agreement is recorded, a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date.

The term 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 secondary 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 Authorized Officer 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 Chaves 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.

If not otherwise provided by 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 24. RATE OF PROSPECTING, DEVELOPMENT AND

PRODUCTION. All production and the disposal hereof

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 Director 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 Commission 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 of 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 Commission.

Powers in this Section vested in the Director 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 25. NONDISCRIMINATION. Unit Operator in con-

nection with the performance of work under this Agreement relating to leases of the United States agrees to comply with the clauses set forth in Exhibit "D" attached hereto and made a part hereof.

SECTION 26. 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 Commission, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department or the Commission, 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 Commission or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

SECTION 27. 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 respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 28. NO WAIVER OR CERTAIN RIGHTS. Nothing in

this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitu-

tional 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 29. 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 30. 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 in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 31. LOSS OF TITLE. In the event title to any

Tract of Unitized Land shall fail so as to render the Tract inoperable under this Agreement and the true owner cannot be induced to join this Agreement, such Tract shall be automatically regarded as not committed hereto as of the first day of the calendar month in which the failure of title is determined 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 as to any Royalty, Working Interest or other interest subject

thereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State or Federal land or lease, no payments of funds due the State of New Mexico or the United States of America shall be withheld, but such funds shall be deposited as directed by the Land Commissioner and/or the Authorized Officer (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.

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

SECTION 32. NONJOINER AND SUBSEQUENT JOINER.

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 Authorized Officer 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 participation as provided in said Section 14, 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 Supervisor. 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 Authorized Officer. Such Joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be con-

sented 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 the Authorized Officer 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 Authorized Officer is duly made sixty (60) days after such filing.

SECTION 33. COUNTERPARTS. This Agreement may be ex-

ecuted in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to be 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 above described Unit Area.

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 of value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefore by the parties hereto, including Royalty Owners, who may be responsible for 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 obligations 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 Unitized Area in order to ascertain the amount of merchantable oil above the pipe line connection in such tanks as of the effective date hereof. All such oil which has then 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 over-produced 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.

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

BURK ROYALTY CO.
Unit Operator and Working
Interest Owner

BY: _____

P.O. Box BRC
Wichita Falls, Texas 76307

STATE OF TEXAS]

COUNTY OF WICHITA]

The foregoing instrument was acknowledged before me on
this 20th day of January, 1988, by
Don H. Beard, Vice President
for Burk Royalty Co., a Texas Corporation, on behalf of said
corporation.

Neil J. Jones "Notary Public"
Notary Public

My Commisison Expires:

11-30-89

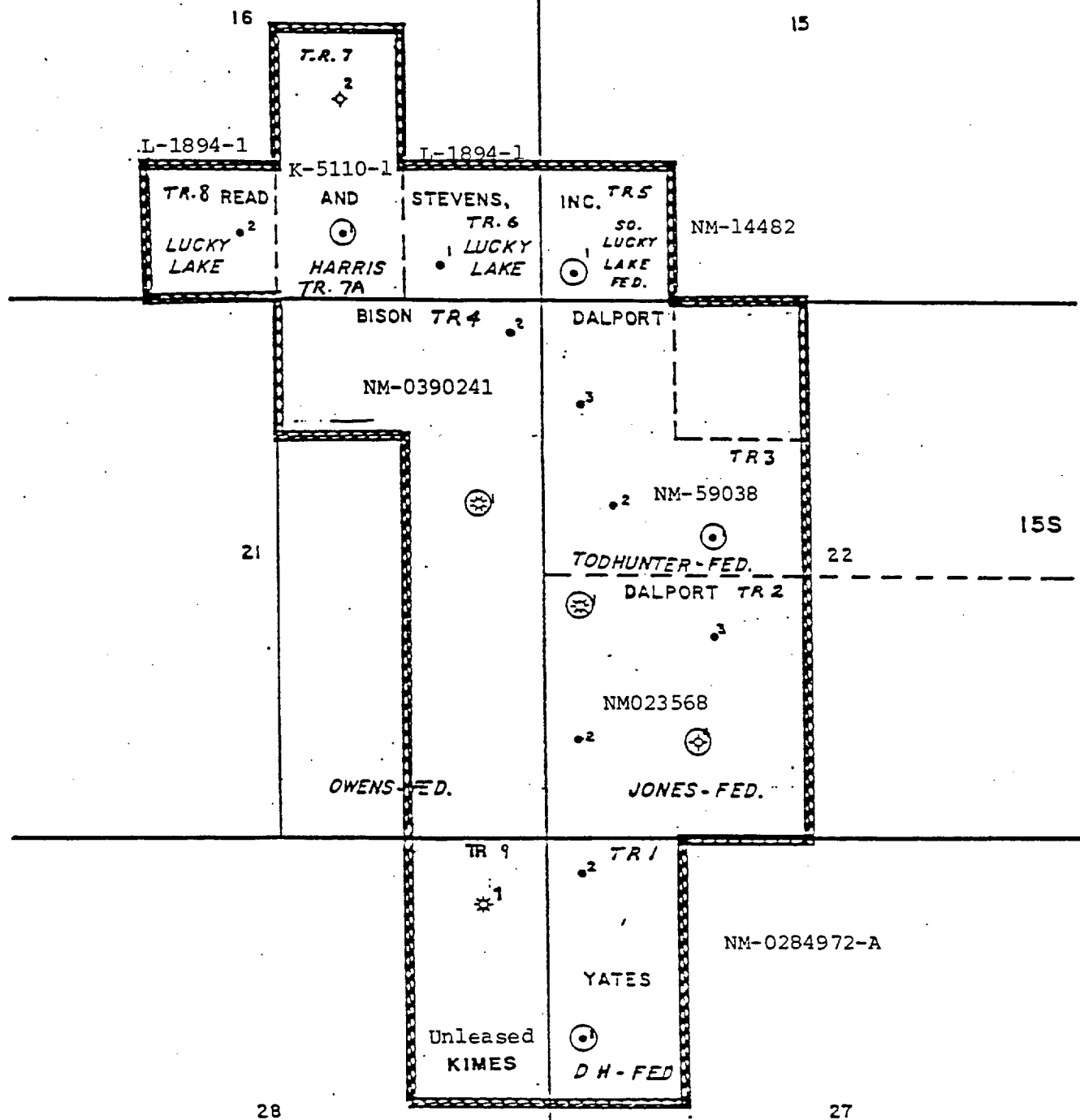


EXHIBIT "A"
 S. LUCKY LAKE QUEEN UNIT
 CHAVES CO., NEW MEXICO
 SCALE: 1" = 1562' ±

EXHIBIT "B"

To Unit Agreement
South Lucky Lake Queen Unit
Chaves County, New Mexico

Tract No.	Description	Acres	Serial No. & Expiration	Royalty Ownership & Percentage	Lessee of Record	ORRI & Percentage	WI & Percentage
✓ 1	W/2 NW/4, Section 22, T15S, R29E, Chaves County, NM Recorded: Federal Land Office	80	NM-0284972-A 4-11-74	Minerals Management .12500	S.P. Yates John A. Yates Martin Yates	Alpha Hotchkiss Irwin Rubenstein 100%	Yates Drilling Co. .26500 Abo Petroleum Corp..26500 Myco Industries .26500 Yates Brothers (PP).05000000
✓ 2	SW/4, Section 22, T15S, R29E, NMPM Chaves County, NM Recorded: Vol. 123 Page 491	160	NM-023568-A 8-4-71	Minerals Management .12500	Dalport Oil	Leon Lampert Donald E. Cooper Helen Jones Rutter-Wilbanks 100%	Burk Royalty Co. .41625 Dalport Oil Corp. .41625
✓ 3	NW/4, Section 22, T15S, R29E, NMPM Chaves County, NM Recorded: Federal Land Office	160	Nm-59038 9/1/89	Minerals Management .12500	Dalport Oil	Leon Lampert Donna Jean Moody Hanson-McBride 100%	Burk Royalty Co. .40625 Dalport Oil Corp. .40625
✓ 4	NW/4NE/4 & E/2E/2, Section 21, T15S, R29E, NMPM Chaves County, NM Recorded: Vol. 125 Page 197	200	NM-0390241 6-1-63	Minerals Management .12500	Bison Pet.	Bison Petroleum Dalport Oil Burk Royalty Co. Leon Lampert James Curran K.D. & Jane Owen 100%	Bison Petroleum .69500
✓ 5	SW/4 SW/4 Section 15, T15S, R29E Chaves County, NM Recorded: Vol. 137 Page 108	40	NM-14482 11-30-83	USA .12500	James Short	David S. Harle Keith McKamey James & Suzanne Short William Short, Jr 100%	Burk Royalty Co. .21125 Robert S. Boas .10562 Charles B. Read Trust "A" #9 Fisco, Inc. Charles B. Read Norman Stevens, Jr. Joe M. Wigley Bruce Stubbs Read & Stevens .05281 .05281 .08350 .00835 .00835 .23380

✓ 6	SE/4 SE/4, Section 16, T15S, R29E, From the surface to 1925' beneath the surface Chaves County, NM Recorded: State Land Office	40	L-1894-1 12-17-78	Commissioner of Public Lands .12500	Read & Stevens Inc.	100%	Read & Stevens First Century Oil Fisco, Inc. .011250	SPG Exploration James A. Clark George L. Clark Read & Stevens Claudia Baker Brian G. Egbert Wilfred Belssing & Victor Bogard, Trustees Paul F. Glenn R&M Enterprises New Mexico Oil	.1031230 .0515600 .0257830 .2191395 .0077349 .0038675 .0012891 .0257830 .0257830 .3828120
7	NW/4 SE/4 Section 16, T15S R29E, NMPM Chaves County, NM Recorded: State Land Office	40	K-5110-1 7-20-75	Commissioner of Public Lands .12500	New Mexico Oil Corp.	100%	James Clark George Clark Read & Stevens Claudia Baker Brian G. Egbert Wilfred Blessing & Victor Bogard Trustees Paul Glenn R&M Enterprises New Mexico Oil	.0546875 .0273438 .3417969 .0082031 .0041016 .0013672 .0273437 .0273437 .3828125	
7-A	SW/4 SE/4 Section 16, T15S R29E, NMPM, From the surface to 1948' Chaves County, NM	40	K-5110-1 7-20-75	Commissioner of Public Lands .12500	New Mexico Oil Corp.	100%	SPG Exploration James Clark George Clark Read & Stevens Claudia Baker Brian G. Egbert Wilfred Blessing & Victor Bogard, Trustees Paul Glenn R&M Enterprises New Mexico Oil	.1093750 .0546875 .0273438 .2324219 .0082031 .0041016 .0013672 .0273437 .0273437 .3828125	

✓ 8	SE/4 SW/4 Section 16, T15S, R29E From the surface to 1925' beneath the surface Chaves County, NM Recorded: State Land Office	40	L-1894-1 12-17-78	Commissioner of Public Lands .12500	Read & Stevens Inc.	100%	Read & Stevens First Century Oil Fisco, Inc.	.005625	SPG Exploration James A. Clark George L. Clark Read & Stevens Claudia Baker Brian G. Egbert Wilfred Blessing & Victor Bogard, Trustees Paul F. Glenn R&M Enterprises New Mexico Oil	.1031230 .0515600 .0257830 .2191395 .0077349 .0038675
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✓ 9	E/2 NE/4 Section 28, T15S, R29E	80	Unleased
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EXHIBIT "C"

Schedule of Tract Participation

De

<u>TRACT #1</u>	Yates Petroleum Corp.	D.H. Federal	.12949000
<u>TRACT #2</u>	Burk Royalty Co./Dalport	Jones Federal	.25775000
<u>TRACT #3</u>	Burk Royalty Co./Dalport	Todhunter Federal	.24327000
<u>TRACT #4</u>	Bison Petroleum Corp.	Owen Federal	.10558000
<u>TRACT #5</u>	Read & Stevens, et al	South Lucky Lake Fed.	.01245000
<u>TRACT #6</u> <u>and #8</u>	Read & Stevens, et al	Lucky Lake	.15272500
<u>TRACT #7</u> <u>and #7A</u>	Read & Stevens, et al	Harris State	.09479500
<u>TRACT #9</u>	Unleased	Kimes Federal	.00394000

PROVISIONS OF SECTION 202 OF
EXECUTIVE ORDER 11246

"(1) The contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include but not be limited to the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

"(2) The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

"(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advising the labor union or workers' representative of the contractor's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

"(4) The contractor will comply with all provisions of Executive Order No. 11246 of Sept. 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

"(5) The contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

"(6) In the event of the contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of Sept. 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by Law.

"(7) The contractor will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of Sept. 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States."

Contractor shall also abide by the regulations of Executive Order 11598, Occupational Safety and Health Act and by Executive Order 11640, Veterans Hire Regulation, which orders are inserted herein by reference.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

8-15-85
Date

Leon Lampert
Leon Lampert
1134 The 600 Bldg.
Corpus Christi, Texas 78473

STATE OF Texas X

COUNTY OF Nueces X

The foregoing instrument was acknowledged before me this 15th day of August, 1985, by Leon Lampert.

My Commission Expires:
3-31-89

Maxine Shelton
Notary Public
MAXINE SHELTON
Notary Public, in and for Nueces County, Texas

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

August 16, 1985
Date

Helen Jones
Helen Jones
2706 "A" North Pecos Street
Midland, Texas 79705

STATE OF TEXAS X

COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this 16th day of August, 1985, by Helen Jones.

Reie A. Bacon
Notary Public

My Commission Expires:
Dec. 28, 1988

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

August 19, 1985
Date

Ray Willis
Hanson-McBride Petroleum Company
P.O. Box 1515
Roswell, NM 88201

STATE OF New Mexico

COUNTY OF Chaves

The foregoing instrument was acknowledged before me this 19 day of August, 1985, by Ray Willis, Business Mgr. for Hanson-McBride Petroleum Company.

Josephine M. Chambers
Notary Public

My Commission Expires:
6-22-87

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

8-20-85
Date

Donna Jean Moody
Donna Jean Moody
15 Riverside Drive
Roswell, NM 88201

STATE OF NEW MEXICO X

COUNTY OF CHAVES X

The foregoing instrument was acknowledged before me this 20th day of AUGUST, 1985, by DONNA JEAN MOODY.

Henry J. Exler
Notary Public

My Commission Expires:
6-10-87

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

August 15, 1985
Date

Brian Copple
Charles B. Read Trust "A" #9
P.O. Box 1518
Roswell, NM 88201
Brian Copple, Trustee

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 15th day of August, 1985, by Brian Copple, Trustee for the Charles B. Read Trust "A" #9.

Randall R. Fort
Notary Public

My Commission Expires:
8-11-86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

August 15, 1985
Date



First Century Oil, Inc.
P.O. Box 1518
Roswell, NM 88201
Charles B. Read, President

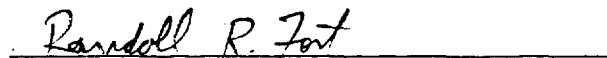
ATTEST:


Adelaide C. Tucker, Secretary

STATE OF New Mexico I

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 15th day of August, 1985, by Charles B. Read, President for First Century Oil, Inc.



Notary Public

My Commission Expires:
8-11-86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

August 20, 1985
Date


Irwin Rubenstein
77 Sedgwick Place
Inglewood, Colorado 80110

STATE OF COLORADO X
COUNTY OF ARAPAHOE X

The foregoing instrument was acknowledged before me this 20TH day of August, 1985, by Irwin Rubenstein.


Notary Public

My Commission Expires:
10/20/86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

August 20, 1985
Date

David S. Harle
David S. Harle
105 West 3rd Street
Roswell, NM 88201

STATE OF New Mexico X
COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 20th day of August, 1985, by David S. Harle.

Nelda Gledingham
Notary Public

My Commission Expires:
April 11, 1989

U.S. Lease No. NM-023568

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

August 19, 1985
Date

Alpha L Hotchkiss
Alpha Hotchkiss
4949 Van Ness Boulevard
Fresno, CA 93704

STATE OF California X

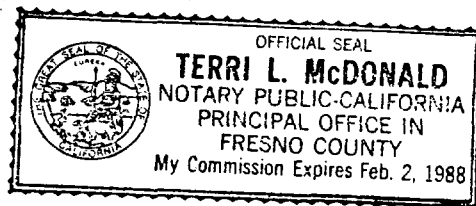
COUNTY OF Fresno X

The foregoing instrument was acknowledged before me this 19th day of August, 1985, by Alpha L. Hotchkiss.

Terri L. McDonald
Notary Public

My Commission Expires:

2/2/88



IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

August 22, 1985
Date

G. L. Wilbanks
Rutter Wilbanks Corp.
P.O. Box 3186
Midland, Texas 79702

STATE OF TEXAS X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this 22nd day of August, 1985, by G. L. Wilbanks, President of Rutter and Wilbanks Corporation.

Shirley J. King
Notary Public Shirley J. King

My Commission Expires:
8/4/88

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

8/26/85
Date

Overriding Royalty Interest Owner

Robert S. Marks
Robert S. MARKS & CO., INC.
77 WATER STREET
Address: NEW YORK, N. Y. 10005

STATE OF New York X
COUNTY OF New York X

The foregoing instrument was acknowledged before me this 26th day of August, 1985, by Robert S. Marks.

Eugenia Sturms
Notary Public

My Commission Expires:
March 30, 1987

EUGENIA STURMS
NOTARY PUBLIC, State of New York
No. 03-9233525
Qualified in Bronx County
Commission Expires March 30, 1987

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

8/26/85
Date

Keith McKamey
Keith McKamey
105 West 3rd Street
Roswell, NM 88201

STATE OF New Mexico
COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 26th day of August, 1985, by Keith McKamey

Isaac Brown
Notary Public

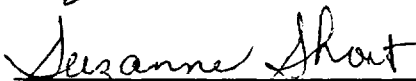
My Commission Expires:
April 24, 1988

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

28 AUG 1985
Date

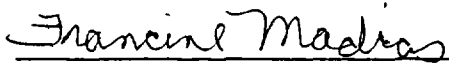

James Short


Suzanne Short
2638 Fairwood Drive
Pepper Pike, Ohio 44124

STATE OF Ohio X

COUNTY OF Cuyahoga X

The foregoing instrument was acknowledged before me this 28 day
of August, 1985, by Suzanne Short James Short.


Notary Public

My Commission Expires:

FRANCINE MADIAS, Notary Public
STATE OF OHIO
My Commission Expires Nov. 17, 1987

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

8-28-85
Date

Donald E. Cooper
Donald E. Cooper
1005 Upland
Midland, Texas 79701

STATE OF TEXAS X

COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this 28th day of August, 1985, by DONALD E. COOPER.

Patty J. Hobbs
Notary Public Patty J. Hobbs

My Commission Expires:
OCT 31, 1988

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

8-21-85
Date

James M. Curran
James M. Curran
5656 Piping Rock Lane
Houston, Texas 77056

STATE OF Texas X

COUNTY OF Harris X

The foregoing instrument was acknowledged before me this 21 day
of August, 1985, by James M. Curran.

Lillian Dewey
Notary Public

My Commission Expires
4/1/86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

9/3/85
Date

Overriding Royalty Interest Owner

K.D. Owen
K.D. Owen

Jane Owen
Jane Owen

Executive Plaza, Suite 800
4615 Southwest Freeway
Houston, Texas 77027

STATE OF TEXAS X

COUNTY OF Harris X

The foregoing instrument was acknowledged before me this 3 day
of Sept, 1985, by K.D. and Jane Owen.

Lillian Dewey
Notary Public

My Commission Expires:
4/1/86

Unit Agreement
South Lucky Lake Queen
Chaves County, New Mexico

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner

Sept. 9, 1985
Date

William H. Short, Jr.
William H. Short, Jr.
1605 Main Street
Suite 810
Sarasota, Florida 33577

STATE OF FLORIDA X
COUNTY OF SARASOTA X

The foregoing instrument was acknowledged before me this 9th day
of Sept., 1985, by William H. Short, Jr.

Kathleen L. Casper
Notary Public

My Commission Expires:

KATHLEEN L. CASPER, Notary Public
The State of FLORIDA at Large
My Commission Expires 08-25-87

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Overriding Royalty Interest Owner
Working Interest Owner

August 15, 1985
Date

ATTEST:

Adele C. Tucker
Adele C. Tucker,
Asst. Secretary

N. L. Stevens III
Fisco, Inc.
P.O. Box 1518
Roswell, NM 88201
Norman L. Stevens, III, Vice-President

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 15th day of August, 1985, by Norman L. Stevens, III, as Vice-President for Fisco, Inc.

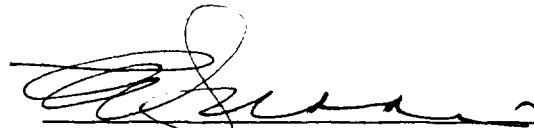
Randall R. Fort
Notary Public

My Commission Expires:
8-11-86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner


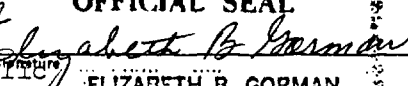
August 15, 1985
Date


New Mexico Oil Corporation
L. C. HARRIS, President
Address: P.O. Box 1714
Roswell, NM 88201

STATE OF NEW MEXICO X
COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 15th day
of August, 1985, by L. C. HARRIS, President
for New Mexico Oil Corporation.

My Commission Expires:
July 15, 1986

NOTARY PUBLIC

OFFICIAL SEAL

ELIZABETH B. GORMAN
NOTARY PUBLIC - NEW MEXICO
NOTARY BOND FILED WITH SECRETARY OF STATE
My Commission Expires 7-16-86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

8-16-85
Date

Bruce O. Barthel
Bison Petroleum Corporation
203 W. 8th Street
Amarillo, Texas 79101

STATE OF Texas X

COUNTY OF Patter X

The foregoing instrument was acknowledged before me this 16th day of August, 1985, by Bruce O. Barthel, President for Bison Petroleum Corporation.

Jo Nell Israel
Notary Public

My Commission Expires:
10-27-85

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

8-16-85

Date

David M. Horne

SPG Exploration Corp.

for David M. Horne, Agent and Attorney-in-Fact
Address: P.O. Box 17689
San Antonio, TX 78217

STATE OF TEXAS X

COUNTY OF BEXAR X

The foregoing instrument was acknowledged before me this 16th day
of August, 1985, by David M. Horne, Agent and Attorney-in-
for SPG Exploration Corp. Fact

Susan Eileen Eckenroth
Notary Public

My Commission Expires:

SUSAN EILEEN ECKENROTH
NOTARY PUBLIC STATE OF TEXAS
COMMISSION EXPIRES 4-4-89

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

August 15, 1985

Date

W. L. Todd, Jr.
Dalport Oil Corporation President
3471 InterFirst One
Dallas, Texas 75202

STATE OF TEXAS X

COUNTY OF DALLAS X

The foregoing instrument was acknowledged before me this 15th day of August, 1985, by W. L. Todd, Jr., President for Dalport Oil Corporation.

Frances Menius
Notary Public

My Commission Expires:

12/31/88

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

8-20-85
Date

Working Interest Owner

R & M Enterprises a
Partnership
By H. Ramsey Barton
R & M Enterprises

Address: 8700 Boyd Street
New Mexico
87020

STATE OF New Mexico X

COUNTY OF Pibola X

The foregoing instrument was acknowledged before me this 20th day
of August, 1985, by H. D. Ramsey.

Luis Shook
Notary Public

My Commission Expires:
2/10/88

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

8-10-85
Date

G. Clark
George A. Clark
Address P.O. Box 947
Albuquerque N.M. 87103

STATE OF NEW MEXICO X

COUNTY OF BERNALILLO X

The foregoing instrument was acknowledged before me this 20th day of August, 1985, by George L. Clark.

Mari S. Simonas
Notary Public

My Commission Expires:
12-30-87

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

Date 8-20-85

B. Stubbs
Bruce Stubbs

Address: 804 Pearson Dr
Roswell, N.M. 88201

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 20th day of August, 1985, by Bruce Stubbs.

Randall R. Fort
Notary Public


My Commission Expires:

8-11-86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

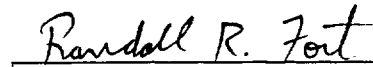
August 15, 1985
Date


Norman L. Stevens, Jr.
P.O. Box 1518
Roswell, NM 88201

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 15th day of August, 1985, by Norman L. Stevens, Jr.

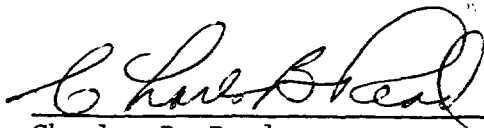

Notary Public

My Commission Expires:
8-11-86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

August 15, 1985
Date



Charles B. Read
P.O. Box 1518
Roswell, NM 88201

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 15th day of August, 1985, by Charles B. Read.

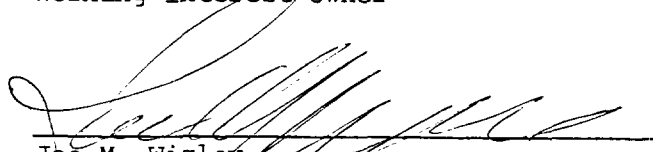

Notary Public

My Commission Expires:
3-11-86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner


8-15-86
Date


Joe M. Wigley
P.O. Box 1518
Roswell, NM 88201

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 15th day of August, 1985, by Joe M. Wigley.


Notary Public

My Commission Expires:
8-11-86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

8-22-85
Date

Claudia R Baker
Claudia Baker

Address: P.O. Box 634
Capitola - Calif
95010

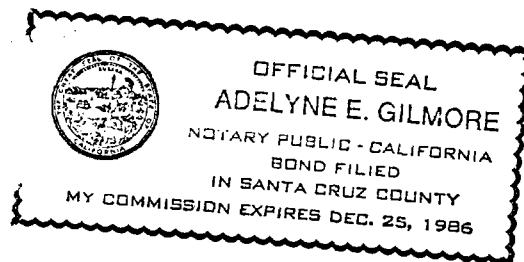
STATE OF Calif X

COUNTY OF Santa Cruz X

The foregoing instrument was acknowledged before me this 22 day
of August, 1985, by Notary Public.

Adelyne E. Gilmore
Notary Public

My Commission Expires:
12-25-86



IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

August 21, 1985
Date

Working Interest Owner

W. E. Blesing
Wilfred E. Blesing, Trustee

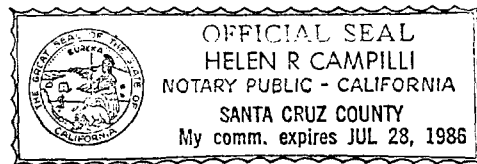
Victor F. Bogard
Victor F. Bogard, Trustee
Address: Box 1470
Santa Cruz Ca 95061

STATE OF California X
COUNTY OF Santa Cruz X

The foregoing instrument was acknowledged before me this 21st day of August, 1985, by Helen R. Campilli

Helen R. Campilli
Notary Public

My Commission Expires:
7-28-86



IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

8-27-85
Date

Brian Egbert
Brian Egbert

Address: 9131 GREENWAY LN.
LENOX KS, 66215

STATE OF Missouri X
COUNTY OF Jackson X

The foregoing instrument was acknowledged before me this 27th day of August, 1985, by Brian Egbert.

Veronica B. Brown
Notary Public

My Commission Expires:
Feb. 24, 1989

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

8-29-85
Date

Working Interest Owner

Paul F. Glenn

Paul F. Glenn

Address: 1216 BLACK ROCK TRAIL
SCOTTSDALE, AZ 85253

STATE OF CALIFORNIA X

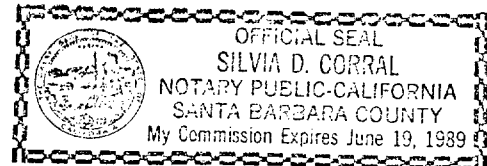
COUNTY OF SANTA BARBARA X

The foregoing instrument was acknowledged before me this 29th day
of August, 1985, by PAUL F. GLENN.

Silvia D. Corral

Notary Public

My Commission Expires:



IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

August 15, 1985

Date

ATTEST:

BY

Joel M. Wigley, Secretary



Read & Stevens, Inc.

P.O. Box 1518

Roswell, NM 88201

Norman L. Stevens, Jr., Vice-President

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 15th day of August, 1985, by Norman L. Stevens, Jr, Vice-President for Read & Stevens, Inc. a New Mexico Corporation.


Notary Public

My Commission Expires:

8-11-86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Working Interest Owner

9-12-85

Date

James A. Clark
James A. Clark

Address: P.O. Box 1518
Roswell, NM 88201

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 13th day of September, 1985, by James A. Clark.

Randall R. Fort
Notary Public

My Commission Expires:
8-11-86

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signature.

Sept. 26, 1985
Date

Working Interest Owner

YATES PETROLEUM CORPORATION

BY: [Signature]

Sept. 26, 1985
Date

YATES DRILLING COMPANY

BY: [Signature]

Sept. 26, 1985
Date

MYCO INDUSTRIES, INC.

BY: [Signature]

Sept. 26, 1985
Date

ABO PETROLEUM CORPORATION

BY: [Signature]

STATE OF NEW MEXICO X

COUNTY OF EDDY X

The foregoing instrument was acknowledged before me on this 26th day of September, 1985, by Reyton Yates, Attorney in-Fact for YATES PETROLEUM CORPORATION, Reyton Yates, Attorney-in-Fact for YATES DRILLING COMPANY, by Frank Yates, Attorney-in-Fact for MYCO INDUSTRIES, INC., and by John Yates, Attorney-in-Fact for ABO PETROLEUM CORPORATION, all New Mexico Corporations, on behalf of said corporations.

[Signature]
Notary Public

My Commission Expires:
November 5, 1988

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

WORKING INTEREST OWNER

11/4/85
Date

John A. Yates 9B
John A. Yates

11/4/85
Date

S.P. Yates
S.P. Yates

11/4/85
Date

ESTATE OF MARTIN YATES III
LILLIE M. YATES

BY Frank Yates
Frank Yates, as Attorney-in-Fact
for Lillie M. Yates, individually
and, with Frank Yates and S.P.
Yates, Personal Representatives
of the Estate of Martin Yates
III.

STATE OF NEW MEXICO)
 : ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 4th
day of November, 1985, by JOHN A. YATES, S.P.
YATES, and by FRANK YATES, as Attorney-in-Fact for Lillie M. Yates, individually,
and, with Frank Yates and S.P. Yates, Personal Representatives of the Estate
of Martin Yates III.

My commission expires:
March 1, 1986

Miriam S. Skolow
Notary Public



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Roswell District Office

P. O. Box 1397

Roswell, New Mexico 88201

IN REPLY
REFER TO:

3180 (065)

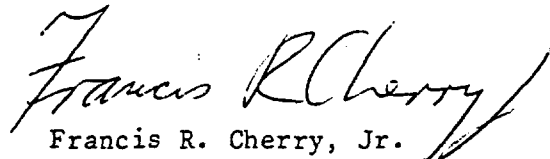
NOV 21 1985

Burk Royalty Company
Attention: Al Norris
P. O. Box BRC
Wichita Falls, Texas 76307

Gentlemen:

One approved copy of the South Lucky Lake Queen Unit Agreement, Chaves County, New Mexico, filed on behalf of Burk Royalty Company, is enclosed. Such agreement has been assigned No. NM061P35-86U321 and is effective as approved the same date of this letter.

Sincerely,



Francis R. Cherry, Jr.
District Manager

Enclosure

CERTIFICATION—DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C., secs. 181, et seq., and delegated to the District Manager, Bureau of Land Management, I do hereby:

- A. Approve the attached agreement for the development and operation of the South Lucky Lake Queen unit area, Chaves County, State of New Mexico.
- B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.
- C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated NOV 21 1985

Orig. Sgd. Francis R. Cherry, Jr.

District Manager,
Bureau of Land Management

NM061P35-864321
Contract No.



United States Department of the Interior

IN REPLY REFER TO:
3120 (943C-T)

BUREAU OF LAND MANAGEMENT NEW MEXICO STATE OFFICE

Post Office and Federal Building

P.O. Box 1449

Santa Fe, New Mexico 87504-1449

DETAILED NOTICE OF COMPETITIVE OIL AND GAS LEASE SALE NEW MEXICO, OKLAHOMA, and KANSAS

JANUARY 22, 1986

Rio Arriba, Sandoval, San Juan, Eddy, Chaves and Lea Counties, New Mexico
Canadian, Woods, Kay and Roger Mills Counties, Oklahoma
Edwards, Clark, Meade and Greeley Counties, Kansas

UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT, STATE OFFICE, SANTA FE, NEW MEXICO. Notice is hereby given that 68 parcels of public and acquired lands totaling 10,605.77 acres within the known geological structures of certain fields in the above counties in New Mexico, Oklahoma and Kansas are offered for oil and gas leasing through sealed bids on the terms hereinafter specified to qualified bidders of the highest bonus for the privilege of leasing the lands under Section 17 of the Mineral Leasing Act of February 25, 1920, (41 Stat. 437; 30 U.S.C. 181) as amended and the Mineral Leasing Act for Acquired Lands of August 7, 1947 (61 Stat. 913; 30 U.S.C. Sec. 351).

THERE WILL BE A MINIMUM BONUS OF \$25.00 PER ACRE FOR EACH NEW MEXICO AND OKLAHOMA PARCEL OFFERED AND A MINIMUM BONUS OF \$5.00 PER ACRE FOR EACH KANSAS PARCEL OFFERED. It is the practice of the Department of the Interior to seek to obtain Fair Market Value (FMV) in the sale, exchange, or other disposition of public lands and resources (Viking Resources Corp., 80 IBLA 245 (1984)). Towards that end, the Bureau of Land Management (a) establishes an administrative minimum price per acre for parcels being offered for lease sale and (b) assesses (estimates) the market value of those parcels. "No bid will be accepted unless it is at or above the administrative minimum price per acre and is also at or above the Government's estimate of the market value of the parcel on which the bid was entered. The Government's estimate of value used in bid acceptance should not be confused with the administrative minimum price per acre published in this lease offering. In the majority of leases the Government's estimate of value is higher than the administrative minimum price per acre."

LANDS OFFERED: The lands to be offered are shown on attached Exhibit "A". (Each parcel number has been assigned a new serial number).

WHEN AND WHERE TO SUBMIT BIDS: All bids must be submitted on or before 4:00 p.m., Local Time, January 21, 1986, to the Bureau of Land Management, Cashier's Office, Room 313-E, P. O. Box 1449, Santa Fe, NM 87504-1449.

Bids received after 4:00 p.m., January 21, 1986, will not be considered. Bids will be opened at 9:00 a.m., Local Time, January 22, 1986, in the Conference Room 109-B of the Main Post Office Building, located at 120 South Federal Place, Santa Fe, New Mexico.

BIDDING REQUIREMENTS: Separate bids must be submitted on each parcel. Each bid must be submitted on Form 3000-2 and must be accompanied by Form 1140-6, "Independent Price Determination Certificate", to the effect that the bid was arrived at by the bidder independently, and was tendered without collusion with any other bidder. The bid form must be originally executed, and accompanied by the following:

A bid deposit of one-fifth of the total amount bid, together with a certified or cashier's check or money order, made payable to The Department of the Interior - BLM.

The bid envelope must be plainly marked that it is not to be opened before the date and hour of the bid-opening, and must show the parcel number and the name of the field. Bids may not be modified or withdrawn unless the modifications or withdrawals are received prior to 4:00 p.m., Local Time, January 21, 1986.

SPECIAL INFORMATION: The bid form shall specify the total amount bid. The total amount bid, not a per acre amount, will be the basis for determining the bonus bid. The deposits of other bidders will be returned upon acceptance of the successful bid. The Department reserves the right to reject any and all bids. Any bonus bid considered as inadequate on the basis of the estimated value of the parcel will be rejected and the deposit returned. If a bidder, after being awarded a lease, fails to execute the lease or otherwise comply with the applicable regulations, his deposit will be forfeited.

In the event of a tie of the highest bids, the tying bidders shall be allowed to submit within 15 days of notice, additional sealed bids to break the tie. The additional bids shall include any additional amount necessary to bring the total amount tendered to one-fifth of the total bonus bid.

The successful bidder shall certify compliance with Subpart 3102 prior to issuance of the lease.

Bidders are warned against violation of 18 U.S.C. 1860, prohibiting unlawful combination or intimidation of bidders.

PAYMENTS REQUIRED: Prior to issuance of a lease, the successful bidder will be required to furnish the remainder of the bonus bid, the first year's rental and his proportionate share of publication costs. The successful bidder's share of publication cost shall be that proportion of the total publication cost that the number of parcels awarded to him bears to the number of parcels awarded.

RENTAL AND ROYALTY: Any lease issued as a result of this offer will provide for payment of annual rental of \$2.00 per acre or fraction thereof, and a royalty payable to the United States at the rate of 12½ percent to 25 percent for oil, and 12½ percent to 16-2/3 percent for gas, in accordance with Form 3120-9, Schedule "B" which will be made a part of any lease issued.

BOND INFORMATION: A general lease and drilling bond in the amount of not less than \$10,000, conditioned upon compliance with all terms and conditions of the lease must be furnished prior to entry and commencement of geophysical exploration or drilling operations by the lessee or his operator. If the successful bidder has an approved full statewide or nationwide bond for public and acquired lands in the States of New Mexico, Oklahoma, and Kansas no additional bonds will be required.

REIMBURSEMENT FOR COST OF PRIVATE SURVEY:

The legal descriptions for the parcels listed below were compiled by private survey at the expense of the initiating party. Prior to lease issuance, the successful bidder must reimburse the company or individual for the full price of the survey as shown and provide such evidence to this office. This evidence will be requested by the Bureau of Land Management from the successful bidder at the time that the decision is rendered accepting the high bid. The name and address of the party that initiated the survey will be shown on such decision. THE COST OF THE SURVEY CANNOT BE APPLIED TO THE LEASE BONUS. If the successful bidder is also the same party who paid for the private survey costs, such party must bear the required cost. If the listed parcels are deleted from the sale or if the high bids are rejected for any reason, the Bureau of Land Management will not be liable for reimbursement of such costs and they must be assumed by the party who initiated the survey:

<u>PARCEL NO</u>	<u>COST</u>
59-----	\$ 154.00
60-----	\$1,727.66

SPECIAL STIPULATIONS REQUIRED:

Parcels 1-9 are subject to the Canada Ojitos Unit. Prior to issuance of the leases, the successful bidders must join the Unit Agreement No. 14-08-0001-8526. The Operator is Benson-Montin-Grier Drilling Corporation.

Parcel 11 is subject to the Bureau of Indian Affairs, Navajo Indian Irrigation Project, Special Stipulation as follows:

"No oil or gas facilities will be installed that will unduly interfere with the construction or development of the area for agricultural purposes in connection with the Navajo Indian Irrigation Project. The lessee must clear with the Navajo Indian Irrigation Project Manager prior to the installation of any oil and gas equipment so that modification or relocation at a later date might be avoided. If the surface is being utilized by an individual Navajo land user, compensation for all surface damages and the loss of grazing area due to exploration and development activity is required."

Parcels 12-18 and 23 are subject to Important Cave Area Special Stipulation, Roswell 5.

Parcels 42, 43 and 57 are subject to Important Seasonal Wildlife Habitat (Time Restriction) Special Stipulation, Roswell 2.

Parcels 21 and 22 are subject to Bureau of Reclamation Special Stipulation Form 3109-1 and additional special stipulations and "NO SURFACE OCCUPANCY" stipulation.

Parcel 26 is subject to the South Lucky Lake Queen Unit. Prior to issuance of the lease, the successful bidder must join the Unit Agreement No. NM 061P35-86U321. The operator is Burk Royalty Company.

Parcels 29, 44, 45, 46, 47 and 48 are subject to Special Potash Stipulation, Form 3100-13 (June 1984).

Parcels 59 and 60 are subject to Special Stipulation, Oklahoma 1, regarding periodic flooding.

Parcel 60 is subject to Communitization Agreement MC 776. Prior to issuance of the lease, the successful bidder must join the Communitization Agreement. The operators are Tuthill and Barbee and Woodruff Drilling Company.

Parcel 61 is subject to the Corps of Engineers Stipulation Form 3109-2 and additional special stipulations.

Parcels 62 and 63 are subject to the United States Department of Agriculture, Forest Service Stipulation as follows:

The licensee/permittee/lessee must comply with all the rules and regulations of the Secretary of Agriculture set forth at Title 36, Chapter II, of the Code of Federal Regulations governing the use and management of the National Forest System (NFS) when not inconsistent with the rights granted by the Secretary of the Interior in the license/prospecting permit/lease. The Secretary of Agriculture's rules and regulations must be complied with for (1) all use and occupancy of the NFS prior to approval of a permit/operation plan by the Secretary of the Interior, (2) uses of all existing improvements, such as Forest development roads, within and outside the area licensed, permitted or leased by the Secretary of the Interior, and (3) use and occupancy of the NFS not authorized by a permit/operating plan approved by the Secretary of the Interior.

All matters related to this stipulation are to be addressed

to Forest Supervisor
Cibola National Forest
at 10308 Candelaria N.E.
Albuquerque, NM 87112
Telephone No. (505) 766-2185
who is the authorized representative of the Secretary of Agriculture.

ADDITIONAL INFORMATION, REQUIRED FORMS AND COPIES OF ALL STIPULATIONS MAY BE OBTAINED FROM THE BUREAU OF LAND MANAGEMENT, P. O. BOX 1449, SANTA FE, NEW MEXICO 87504-1449.

THE LIST SHOWING THE RESULTS OF THE SALE MAY BE PURCHASED AT A COST OF \$5.00 FROM THE CASHIER, NEW MEXICO STATE OFFICE, P. O. BOX 1449, SANTA FE, NEW MEXICO 87504-1449.

Parcel No. 24 - 40.11 Total Acres
T. 8 S., R. 28 E., NMPM
Sec. 5: Lot 4
Chaves County - Undefined Field
NM 65395

Parcel No. 25 - 40.07 Total Acres
T. 8 S., R. 28 E., NMPM
Sec. 6: Lot 1
Chaves County - Undefined Field
NM 65396

Parcel No. 26 - 80.00 Total Acres
T. 15 S., R. 29 E., NMPM
Sec. 28: E $\frac{1}{2}$ NE $\frac{1}{4}$
Chaves County - Undefined Field
NM 65397

Parcel No. 27 - 120.00 Total Acres
T. 15 S., R. 29 E., NMPM
Sec. 28: W $\frac{1}{2}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$
Chaves County - Undefined Field
NM 65398

Parcel No. 28 - 80.00 Total Acres
T. 18 S., R. 29 E., NMPM
Sec. 23: N $\frac{1}{2}$ NW $\frac{1}{4}$
Eddy County - Undefined Field
NM 65399

Parcel No. 29 - 399.36 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 1: Lots 2, 3, 4, SW $\frac{1}{4}$ NE $\frac{1}{4}$,
S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$
Eddy County - Undefined Field
NM 65400

Parcel No. 30 - 279.88 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 5: Lot 1, SE $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ S $\frac{1}{2}$,
NE $\frac{1}{4}$ SE $\frac{1}{4}$
Eddy County - Undefined Field
NM 65401

Parcel No. 31 - 120.00 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 8: S $\frac{1}{2}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$
Eddy County - Undefined Field
NM 65402

Parcel No. 32 - 240.00 Total acres
T. 24 S., R. 29 E., NMPM
Sec. 11: N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$
Eddy County - Undefined Field
NM 65403

Parcel No. 33 - 160.00 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 12: NW $\frac{1}{4}$
Eddy County - Undefined Field
NM 65404

Parcel No. 34 - 320.00 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 13: W $\frac{1}{2}$
Eddy County - Undefined Field
NM 65405

Parcel No. 35 - 80.00 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 18: E $\frac{1}{2}$ NE $\frac{1}{4}$
Eddy County - Undefined Field
NM 65406

Parcel No. 36 - 120.00 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 23: E $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$
Eddy County - Undefined Field
NM 65407

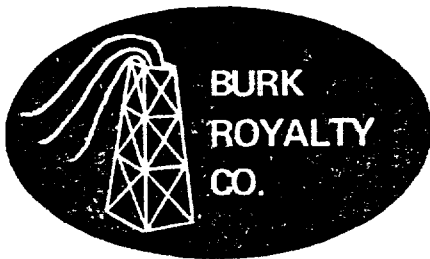
Parcel No. 37 - 400.00 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 25: NE $\frac{1}{4}$, N $\frac{1}{2}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$,
NE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$
Eddy County - Undefined Field
NM 65408

Parcel No. 38 - 120.00 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 26: N $\frac{1}{2}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$
Eddy County - Undefined Field
NM 65409

Parcel No. 39 - 40.00 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 29: NE $\frac{1}{4}$ NE $\frac{1}{4}$
Eddy County - Undefined Field
NM 65410

Parcel No. 40 - 40.00 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 33: SW $\frac{1}{4}$ SE $\frac{1}{4}$
Eddy County - Undefined Field
NM 65411

Parcel No. 41 - 40.00 Total Acres
T. 24 S., R. 29 E., NMPM
Sec. 34: SW $\frac{1}{4}$ SE $\frac{1}{4}$
Eddy County - Undefined Field
NM 65412



AL NORRIS

January 16, 1986

TO ALL WORKING INTEREST OWNERS:

RE: South Lucky Lake Waterflood Unit
Chaves County, New Mexico

Gentlemen:

Burk Royalty Co. hereby requests and agrees that the above Unit Agreement should be extended for an additional six months from November 1, 1985.

Sincerely,

BURK ROYALTY CO.

Al Norris
Land Department

AN/cr

DALPORT OIL CORPORATION

3471 INTERFIRST ONE

DALLAS, TEXAS 75202

January 14, 1986

Burk Royalty Company
Post Office Box BRC
Wichita Falls, Texas 76307

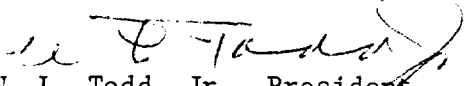
RE: Expiration of South Lucky Lake Waterflood Unit,
Chaves County, New Mexico

Gentlemen:

Dalport Oil Corporation requests and agrees to the
extension of the above Unit Agreement for six (6) months from
November 1, 1985.

Yours very truly,

DALPORT OIL CORPORATION


W. L. Todd, Jr., President

WLTJr/fm



**BISON
PETROLEUM
CORPORATION**

5809 South Western, Suite 200
Amarillo, Texas 79110-3607
Phone: 806/358-0181

Burk Royalty Company
P.O. Box BRC
Wichita Falls, TX 76307
Attn: Mr. Al Norris

Re: Exploration South Lucky Lake
Water Flood Unit
Chaves County, New Mexico

January 15, 1986

Gentlemen:

Bison Petroleum Corporation requests and agrees to the extension of
the subject Unit Agreement for six months from November 1, 1985.

Yours very truly,

A handwritten signature in cursive script, reading "Bruce O. Barthel".

Bruce O. Barthel
President

BOB/lj

UNITED BANK PLAZA
400 N. PENN. SUITE 1000

PHONE 505 622-3770

CHARLES B. READ
PRESIDENT

JRMAN L. STEVENS, JR.
VICE-PRESIDENT

Read & Stevens, Inc.

Oil Producers

P. O. Box 1518

Roswell, New Mexico 88201

January 15, 1986

Burk Royalty Company
Post Office Box BRC
Wichita Falls, Texas 76307

Attention: Al Norris


Re: South Lucky Lake Water Flood
Unit Agreement Extension

Gentlemen:

This letter is to notify you and all interested parties that Read & Stevens, Inc. does agree to the extension of the unit agreement for six months from November 1, 1985, not only on its own behalf but also on behalf of all of those parties which obtained their interest in this Unit through Read & Stevens, Inc., be it overriding royalty owners or working interest owners. If we can be of further assistance please advise.

Sincerely,

READ & STEVENS, INC.


Joel M. Wigley, Land Manager

JW:arw



207 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1331

S. P. YATES
PRESIDENT
MARTIN YATES, III
VICE PRESIDENT
JOHN A. YATES
VICE PRESIDENT
B. W. HARPER
SEC. TREAS.

January 16, 1986

Burk Royalty Company
1000 Petroleum Building
P.O. Box BRC
Wichita Falls, Texas 76307

Attention: Mr. Al Norris

RE: Expiration South Lucky Lake
Waterflood Unit
Chaves County, New Mexico

Gentlemen:

Yates Petroleum Corporation, Yates Drilling Company, Myco Industries, Inc., Abo Petroleum Corporation, John A. Yates, S.P. Yates, Estate of Martin Yates III, and Lillie M. Yates all request and agree to the extension of the above Unit Agreement for six months from November 1, 1985.

Very truly yours,

YATES PETROLEUM CORPORATION
YATES DRILLING COMPANY
MYCO INDUSTRIES, INC.
ABO PETROLEUM CORPORATION
JOHN A. YATES
S.P. YATES
ESTATE OF MARTIN YATES III
LILLIE M. YATES


Jim Ball
Landman

JB/kg

**UNIT OPERATING AGREEMENT
SOUTH LUCKY LAKE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO**

UNIT OPERATING AGREEMENT
SOUTH LUCKY LAKE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT
SOUTH LUCKY LAKE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of July, 1984 by and between the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto.

W I T N E S S E T H :

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an Agreement entitled "Unit Agreement, South Lucky Lake Queen Unit Chaves County, New Mexico", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for 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.

2.1.1 Exhibits A, B, C, and D of the Unit Agreement

are incorporated herein by reference.

2.1.2 Exhibit E, attached hereto, is a schedule showing

the Unit Participation of each Working Interest Owner. Exhibit E, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations shown to be in error or revised as herein authorized.

2.1.3 Exhibit F, attached hereto, is the Accounting Procedure

applicable to Unit Operations. If there is any conflict between this Agreement and Exhibit F, this Agreement shall govern.

2.1.4 Exhibit G, attached hereto, contains insurance provisions

applicable to Unit Operations.

2.2 Revision of Exhibits. Whenever Exhibits A, B or C are

revised, Exhibit E shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit E 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 ex-

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

3.2 Specific Authorities and Duties. The matters with respect

to which Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, includ-

ing the type or types of pressure maintenance, secondary recovery, or other recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for

Production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status. The recomple-

tion, abandonment, or permanent 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 Seven Thousand Five Hundred Dollars (\$7,500.00); 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 therefor, 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 Five Thousand Dollars (\$5,000.00) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The

designation 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.

3.2.7 Audits. The auditing of the accounts of Unit Operator

pertaining to Unit Operations hereunder; however, the audits shall

- (a) not be conducted more than once a 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.

3.2.8 Inventories. The taking of periodic inventories under

the terms of Exhibit F.

3.2.9 Technical Services. The authorizing of charges to the

Joint Account for services by consultants or Unit Operator's technical
personnel not covered by the overhead charges provided by Exhibit F.

3.1.10 Assignments to Committees. The appointment of committee

to study any problems in connection with Unit Operations.

3.1.11 The removal of Unit Operator and the selection of a
successor.

3.2.12 The enlargement of the Unit Area.

3.3.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

3.2.15 Border Line Agreements.

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 writ-
ten notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be

called by Unit Operator upon its own motion or at the request of two
(2) or more Working Interest Owners having a total Unit Participation
then in effect 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 Interest Owner shall have

a voting interest equal to its Unit Participation in effect at the
time of the vote.

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 sixty percent
(60%); however, should any one Working Interest Owner have more
than thirty-five percent (35%) voting interest, its negative
vote or failure to vote shall not defeat a motion, and such motion
shall pass if approved by Working Interest Owners having a majority
voting interest, unless three or more Working Interest Owners having
a combined voting interest of at least ten percent (10%) likewise
vote against the motion or fail to vote

4.3.3 Vote at Meetings 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 re-
presentative of Unit Operator if its vote is received prior to the
vote at the meeting, provided the agenda items are not amended.

4.3.4 Poll Votes. Working Interest Owners may vote on and de-

cide, by letter or telegram, any matter submitted in writing to
Working Interest Owners. If a meeting is 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 sever-

ally reserve to themselves all their rights, except as otherwise
provided in this Agreement and the Unit Agreement.

5.2 Specific Rights. Each Working Interest Owner shall have

among others, the following specific rights:

5.2.1 Access to Unit Area. Access to the Unit Area at all

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

5.2.2 Reports. The right to receive from Unit Operator,

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

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. Burk Royalty Co. is hereby designated as the

initial Unit Operator.

6.2 Resignation or Removal and Selection of Successor. The re-

signation or removal of Unit Operator and the selection of a successor shall be governed by the provisions of the Unit Agreement.

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions

of this Agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit

Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances.. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important, Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens 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 and Working Interest Owners granted hereunder.

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

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

7.6 Reports to Working Interest Owners. Unit Operator shall
furnish Working Interest Owners periodic reports of Unit Oper-
ations.

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

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

7.9 Expenditures. Unit Operator is authorized to make single
expenditures not in excess of Seven Thousand Five Hundred Dollars
(\$7,500.00) 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.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit
Operator shall be at the usual rates prevailing in the area. Unit
Operator may employ its own tools and equipment, but the charge there-
for 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 of independent
contractors doing work of a similar nature.

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; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interests 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 Unit Operations,

shall:

- (a) comply with the Workmen's Compensation Laws of the State,
- (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 G.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon Effective Date,

Working Interest Owners shall deliver to Unit Operator the followings:

10.1.1 Wells. All wells completed in the Unitized Formation.

10.1.2 Well and Lease Equipment. The casings and tubings in

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

10.1.3 Records. A copy of all production and well records 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 "F" except, upon determination of Working Interest Owners, items considered noncontrollable may be included in the inventory in order to insure a more equitable adjustment of investment. Casings shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, investments shall be adjusted as follows:

10.3.1 Initial Adjustment of Investments. Each Working Interest Owner shall be credited with the value, as determined in accordance with Section 10.2 above, of its interest in all personal property taken over by Unit Operator under Section 10.1.2 and charged with an amount equal to that obtained by multiplying the total value of all such personal property taken over by Unit Operator under Section 10.1.2 by such Working Interest Owner's Unit Participation, as shown in Exhibit "E". If the charge against any Working Interest Owner is greater than the amount credited such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

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

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

ARTICLE 11

UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator

initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of unit operating expense in proportion to the respective Unit Participations of the parties hereto in effect at the time such expense was incurred.

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 August thereafter, shall prepare a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right, with-

out 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 fifteen (15) 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 calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. 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 and Working

Interest Owners. 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, to secure payment of its share of Unit Expense, together with interest thereon at the rate of ten percent (10%) per annum. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, 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 judgment 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 default. Unit Operator grants a like lien and security interest to the Working Interest Owners.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails

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

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest

in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such tract are more or less than the royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit 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-eighth (1/8) 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.

11.8 Rentals. The Working Interest Owners in each Tract shall

pay all rentals, minimum royalty, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator evidence of payment.

11.9 Carved-out Interest. If any working Interest Owner shall,

after executing this agreement, create an overriding royalty, production payment, net proceeds 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, Section 11.5 hereof entitled "Lien and Security Interest of Unit Operators and Working Interest Owners." 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 accrues to the credit of such Working Interest Owner is insufficient for that purpose, or (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 interest 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 Section 11.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

ARTICLE 12

NON-UNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now

has or hereafter acquires the right to drill for and produce oil, gas, or other minerals, from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise 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

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner re-

presents and warrants that it is the owner of the respective working interests set forth opposite its name in Exhibit "B" of the Unit Agreement, 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 out of

Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of 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 adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

13.2 Failure Because of Unit Operations. The failure of title

to any Working Interest in any Tract 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 other Working Interest Owners at the time of the title failure.

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

14.1 Individual Liability. The duties, obligations, and

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

14.2 Settlements. Unit Operator may settle any single

damage claim or suit involving Unit Operations if the expenditure does not exceed Two Thousand Five Hundred Dollars (\$2,500.00) and if 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 of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations 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 Litigation Involving Unit. All litigation, and all

settlements or liability of damages arising thereunder, involving or arising out of Unit Operations (specifically including but not limited to actions by third parties claiming damages by virtue of Unit Operations) shall be deemed a Unit expense under Article 11 hereof.

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 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 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 Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal regulations of the returns, statements, and the data required by Federal Regulations 1.761-2. 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 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 agrees 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.

ARTICLE 16

NOTICES

16.1 Notices. All notices required hereunder shall be in

writings 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.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from

this Agreement by transferring, without warrant of title, either express or implied, to the other Working Interest Owners, all its Oil and Gas Rights exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations. The instrument of transfer may be delivered to Unit Operator for the transferees. Such transfer shall not relieve the Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the instrument of transfer; however, the tender shall be accepted unless Working Interest Owners decide within ninety (90) days to terminate the Unit. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations then in effect. The transferees, in proportion to the respective interests so acquired, shall pay transferor, for its interest in Unit Equipment, the net salvage value thereof as determined by Working Interest Owners. In the event such withdrawing party's interest in the aforesaid net salvage value after deducting the estimated cost of salvaging same is less than the withdrawing party's share of the estimated cost of plugging and abandoning all wells then being used or held for Unit Operations, then the withdrawing party, as a condition precedent to withdrawal, shall pay in cash to the party or parties succeeding to its interest a sum equal to the deficiency. After the date of delivery of the instrument of transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

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 shall have the option for a period of ninety (90) days after the sending of such notice to

notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount 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 the Unitized formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

18.2 Plugging. If the Working Interest Owners of a Tract do -----
not elect to take over 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.

ARTICLE 19

EFFECTIVE DATE AND TERM

19.1 Effective Date. This Agreement shall become effective -----
when the Unit Agreement becomes effective.

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 20, (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 values, as determined by Working Interest Owners, of the Casing and equipment in and on the wells taken over and by agreeing upon abandonment to plus each well in compliance with applicable laws and regulations.

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, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.

20.1.4 Cost of Abandonment. The cost of abandonment of

Unit Operations shall be Unit Expense.

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 Participations.

ARTICLE 21

EXECUTION

21.1 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, and 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 22

SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. This Agreement shall ex-

tend 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.

EXHIBIT "E"

To Unit Operating Agreement

SOUTH LUCKY LAKE QUEEN UNIT

Chaves County, New Mexico

July 1, 1984

Complied to Comply With Order No. R-5164

Of the Oil Conservation Commission of The State Of New Mexico

	<u>Unit Participation %</u>
Burk Royalty Co.	25.15 %
Dalport Oil Corporation	25.15 %
Bison Petroleum Corporation	10.60 %
Read & Stevens, et al	15.228125%
Yates Drilling Company	4.33 %
Abo Petroleum Corporation	4.33 %
Myco Industries, Inc.	4.34 %
New Mexico Oil Corporation	<u>10.871875%</u>
	100.00 %

COPAS

EXHIBIT " F "

Attached to and made a part of South Lucky Lake Queen Unit
Chaves County, New Mexico

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 of North America.

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

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. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

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 rate of twelve percent (12%) per annum 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. 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 joint or simultaneous audits 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.

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. Rentals and Royalties

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

2. 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.

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 2A of this Section II. Such costs under this Paragraph 2B 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 2A 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 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. 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 2A and 2B of this Section II shall be Operator's actual cost ~~not to exceed twenty percent (\$20%)~~.

4. 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.

5. 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, recognized barge terminal, or railway receiving point where like material is normally available, 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, recognized barge terminal, or railway receiving point 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, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii 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.

7. 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 investment not to exceed eight per cent (8%) 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 7A 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.

8. 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.

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments 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.

10. 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.

11. 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 Workmen'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.

12. 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 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
(X) 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 2A, 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 () 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 \$ 2,500.00

Producing Well Rate \$ 250.00

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive 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, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive 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 may be made for the month in which plugging and abandonment operations are completed on any well.
 - [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 Fields 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: To be negotiated.

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 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 crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$10,000.00:

- A. 5 % of total costs if such costs are more than \$ 10,000.00 but less than \$ 100,000.00; plus
B. 3 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus
C. 2 % of total 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 shall be excluded.

3. 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 reason, 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 bases exclusive of cash discounts:

A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
(2) Line Pipe
(a) Movement of less than 30,000 pounds 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 where such Material is normally available.
(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

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
(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.
(2) Material moved from the Joint Property
(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, 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 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

C. Other Used Material (Condition C and D)

(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 2A of this Section IV. 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

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the 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 and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (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

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with 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 or change of interest 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.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "G"
To unit operating agreement
SOUTH LUCKY LAKE QUEEN UNIT
Chaves County, New Mexico

INSURANCE PROVISIONS

Unit Operator shall carry the following insurance with respect to operations on all lands subject to this agreement:

- (a) Comprehensive general liability insurance, excluding products, with a single combined limit of \$500,000 each accident for bodily injuries or death and property damage.
- (b) Automobile public liability and property damage insurance with a single combined limit of \$500,000 each accident for bodily injuries or death and property damage.
- (c) Such additional insurance as may hereafter be required by law.

All insurance coverage required hereby shall be carried at the Joint expense and for the benefit of the parties hereto, except for premiums for Automobile Public Liability and Property Damage Insurance on Unit Operator's fully owned equipment, which shall not be charged directly to the Joint account but will, instead, be covered by the flat rate charges assessed the unit of such equipment. Unit Operator will not carry fire, windstorm, or explosion insurance covering operations hereunder. Unit Operator shall require its contractors and subcontractors working and performing services on lands committed hereto to comply with the workmen's compensation laws of the State and to carry other insurance of the types specified above and such amounts as the Unit Operator shall deem necessary.

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

BURK ROYALTY CO.
Unit Operator and Working Interest Owners

BY:

Robert Fowler
Robert Fowler Vice-President

P.O. Box BRC
Wichita Falls, Texas 76307

STATE OF TEXAS)

COUNTY OF WICHITA)

The foregoing instrument was acknowledged before me this
5th day of June, 1984, by Robert Fowler,
Vice-President for Burk Royalty Co., a Texas Corporation, on
behalf of said Corporation.

Alenda Barnes Coffman
Notary Public for the State of Texas

My commission expires:

12/9/85

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

YATES PETROLEUM CORPORATION

By *John A. Yates*
Attorney-in-Fact

YATES DRILLING COMPANY

By *Dexter Yates*
Attorney-in-Fact

MYCO INDUSTRIES, INC.

By *Frank Yates*
Attorney-in-Fact

ABO PETROLEUM CORPORATION

By *John A. Yates*
Attorney-in-Fact

STATE OF NEW MEXICO)

: ss

COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 27th day of September, 1984, by *John A. Yates*, Attorney-in-Fact for YATES PETROLEUM CORPORATION, *Dexter Yates*, Attorney-in-Fact for YATES DRILLING COMPANY, by *Frank Yates*, Attorney-in-Fact for MYCO INDUSTRIES, INC., and by *John A. Yates*, Attorney-in-Fact for ABO PETROLEUM CORPORATION, all New Mexico corporations, on behalf of said corporations.

My commission expires:

March 1, 1986

William S. Stolar
Notary Public

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

BURK ROYALTY CO.
Unit Operator and Working Interest Owners

BY: Robert Fowler
Robert Fowler Vice-President

P.O. Box BRC
Wichita Falls, Texas 76307

STATE OF TEXAS)

COUNTY OF WICHITA)

The foregoing instrument was acknowledged before me this 9th day of July, 1984, by Robert Fowler, Vice-President for Burk Royalty Co., a Texas Corporation, on behalf of said Corporation.

Maeda Barnes Coggin
Notary Public for the State of Texas

My commission expires:

12-9-85

12/31/84

Made a part of the agreement styled Unit Agreement.
dated November 1, 1983.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement
to be executed and have set opposite his representative name the date
of execution.

3-28-85
Date

Working Interest Owner
SPG EXPLORATION CORP.

BY: [Signature]
for David M. Horne
Agent and Attorney-in-Fact

STATE OF TEXAS I

COUNTY OF BEXAR I

The foregoing instrument was acknowledged before me this 28th
day of March, by David M. Horne, Agent and Attorney-in-Fact
of SPG Exploration Corp.

[Signature]
Notary Public, State of Texas

My Commission Expires:

8-18-88

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

READ & STEVENS, INC.
Working Interest Owners

ATTEST:

BY:

Joel M. Wigley, Secretary

BY:

Norman L. Stevens, Jr., Vice-President

10-19-84

P.O. Box 1518
Roswell, New Mexico 88201

STATE OF NEW MEXICO X
COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this
19th day of October, 1984, by Norman L. Stevens, Jr., Vice-President
of Read & Stevens, Inc., a New Mexico Corporation, on behalf of
said Corporation.

Randall R. Fort
Notary Public

My Commission Expires:

8-11-86

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

BISON PETROLEUM CORPORATION
Working Interest Owners

By: Bruce Barthel
Bruce Barthel-President

Amarillo Petroleum Bldg.
203 W. 8th St.
Amarillo, Texas 79101

STATE OF TEXAS X
 X
COUNTY OF Randall X

The foregoing instrument was acknowledged before me this 27th day of April, 1984, by BRUCE BARTHEL, President for Bison Petroleum Corporation, on behalf of said Corporation.

Carol A. Brown
Notary Public for the State of Texas

My Commission Expires:

5-17-88

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

ROBERT S. BOAS
Working Interest Owner

Date: _____

12/10/84

BY: _____

[Signature]

STATE OF New York X

COUNTY OF New York X

The foregoing instrument was acknowledged before me this 10th day of December, 1984, by Robert S. Boas.

Eugenia Sturms
Notary Public, State of New York

My Commission Expires:

March 30, 1986

EUGENIA STURMS
NOTARY PUBLIC, State of New York
No. 03-9233525
Qualified in Bronx County
Commission Expires March 30, 1986

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

CHARLES B. READ TRUST "A" #9
Working Interest Owner

Date: Dec 12, 1984

BY: B. W. Cople
Trustee

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 12th day of December, 1984, by Brian W. Cople, Trustee for the Charles B. Read Trust "A" #9.

Deborah Christensen
Notary Public, State of N.M.

My Commission Expires:

July 31, 1985

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

CHARLES B. READ
Working Interest Owner

Date: 1/14/85

BY: Charles B. Read

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 14th day of JANUARY 1985, by Charles B. Read.

Randall R. Foxt
Notary Public, State of New Mexico

My Commission Expires:

8-11-86

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

NORMAN L. STEVENS, JR.

Working Interest Owner

Date: 12-11-84

BY: 

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 11th day of December, 1984, by Norman L. Stevens, Jr.

Randall R. Fort
Notary Public, State of New Mexico

My Commission Expires:

8-11-86

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

JOE M. WIGLEY
Working Interest Owner

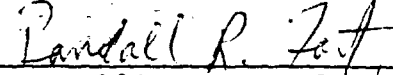
Date: 12-11-84

BY: 

STATE OF New Mexico

COUNTY OF Chaves

The foregoing instrument was acknowledged before me this 11th day of December, 1984, by Joe M. Wigley.


Notary Public, State of New Mexico

My Commission Expires:

5-11-86

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

BRUCE STUBBS
Working Interest Owner

Date: 12-11-84

BY: Bruce Stubbs

STATE OF New Mexico

COUNTY OF Alamogordo

The foregoing instrument was acknowledged before me this 11th day of December, by Bruce Stubbs.

[Signature]
Notary Public, State of New Mexico

My Commission Expires:

Oct 7, 1987

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

Working Interest Owner

December 7, 1984
Date

BY: James A. Clark
James A. Clark

STATE OF New Mexico X

COUNTY OF Bernalillo X

The foregoing instrument was acknowledged before me this 7th day of December 1984, by James A. Clark.

Stacie N. Hatfield
Notary Public, State of New Mexico

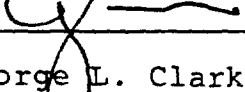
My Commission Expires:

June 17, 1986

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

Working Interest Owner

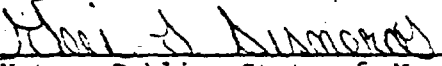
12/7/84
Date

BY: 
George L. Clark

STATE OF New Mexico I

COUNTY OF Bernalillo I

The foregoing instrument was acknowledged before me this 7th
day of December, by George L. Clark.


Notary Public, State of New Mexico

My Commission Expires:

12-30-87

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

Working Interest Owner

12-11-84
Date

BY: Claudia L. Baker
Claudia Baker

STATE OF CALIFORNIA X

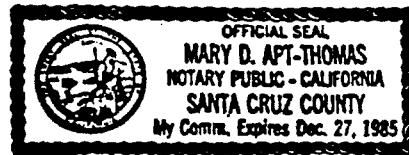
COUNTY OF SANTA CRUZ X

The foregoing instrument was acknowledged before me this 11th day of DECEMBER, 1984, by Claudia Baker.

Mary D. Apt-Thomas
Notary Public, State of California

My Commission Expires:

12-27-85



2715 Porter Street, Soquel, CA 95073

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

Working Interest Owner

12-7-84
Date

BY: Brian Egbert
Brian Egbert

STATE OF Kansas X

COUNTY OF Johnson X

The foregoing instrument was acknowledged before me this 7th day of December, by Brian Egbert.

Marsha A. McLaughlin
Notary Public, State of Kansas

My Commission Expires:

July 4, 1987



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

Working Interest Owner

12-17-84
Date

BY: Wilfred E. Blessing
Wilfred E. Blessing, Trustee

BY: Victor F. Bogard
Victor F. Bogard, Trustee

STATE OF Calif X

COUNTY OF San Diego I

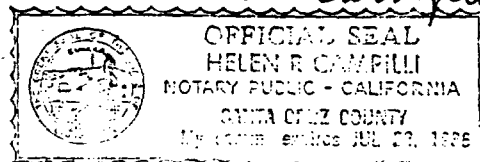
The foregoing instrument was acknowledged before me this 17th day of December 1984, by Wilfred E. Blessing and Victor F. Bogard, Trustees for Yvette Egbert, Linda Egbert, Toni Egbert, Stacey Egbert, Randy Leigh Kilgore and Diane Rene Kilgore

My Commission Expires:

7-28-86

Notary Public, State of Calif

Helen R. Campilli



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

Dec 11, 1987

Date

Working Interest Owner

BY: Paul F. Glenn

Paul F. Glenn

STATE OF ARIZONA

COUNTY OF MARICOPA

The foregoing instrument was acknowledged before me this 11th day of DECEMBER, by Paul F. Glenn.

Helen H. Clark
Notary Public, State of Arizona

My Commission Expires:
OFFICIAL SEAL

HELEN H. CLARK

Notary Public - State of AZ

MARICOPA COUNTY

My Commission Expires April 7, 1987

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite his representative name the date of execution.

Working Interest Owner

12-10-84
Date

BY: [Signature]
R & M Enterprises

STATE OF New Mexico I
COUNTY OF Cibola I

The foregoing instrument was acknowledged before me this 10th day of November, by G.D. Ramsey, Managing Partner of R&M Enterprises, a New Mexico Partnership, on behalf of said Partnership.

[Signature]
Notary Public, State of New Mexico

My Commission Expires:

2/10/88

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

ATTEST:

New Mexico Oil Corporation
Working Interest Owners

BY:

Marion V. Harris
Secretary-Treas.

BY:

L. C. HARRIS
President

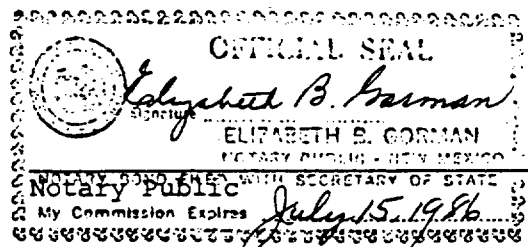
P.O. Box 1714
Roswell, New Mexico 88201

STATE OF NEW MEXICO X

X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this
6th day of November, 1984, by L. C. HARRIS, President
of New Mexico Oil Corporation, a New Mexico Corporation, on behalf of
said Corporation.



My Commission Expires:

July 15, 1986

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

FISCO, INC.

Working Interest Owner and Overriding Royalty
Interest Owner

Date: 12-11-84

BY: [Signature]

Norman L. Stevens, Jr.
President

ATTEST:

[Signature]
Adelaide Tucker
Assistant Secretary

STATE OF New Mexico X

COUNTY OF Chaves X

The foregoing instrument was acknowledged before me this 11th day of December, 1984, by Norman L. Stevens, Jr., as President of said Corporation, on behalf of said Corporation.

[Signature]
Notary Public, State of New Mexico

My Commission Expires:
8-11-86

PROPOSED
SOUTH LUCKY LAKE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

JANUARY 20, 1986

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CURVE PRODUCTION HISTORY	
Exhibit "A"	- Lease map showing Unit boundary, tracts, and injection pattern.
Exhibit "B"	- Isopach Map
Exhibit "C"	- Structure Map
Exhibit "D"	- Location Map - Chaves County

PROPOSED SOUTH LUCKY LAKE QUEEN UNIT
Chaves County, New Mexico

INTRODUCTION

The South Lucky Lake Field is located in Township 15 South and Range 29 East which is 12 miles north of Loco Hills in southeastern Chaves County, New Mexico.

Production from the field was first secured in 1972 from Dalport's Todhunter-Fed. Lease. Peak production was reached in June, 1976 with a monthly average of 128 barrels per day. Production as of September, 1983 averaged 26 barrels per day and cumulative production as of 10-1-83 was 181,596 barrels. There are presently 15 wells in the field usable for flood purposes.

Completion practices did not vary widely from well to well in the field. Most wells were completed by setting either 4 1/2 or 5 1/2 inch casing through the formation and cementing; the casing then being perforated for completion and sandfracing.

Crude oil is approximately 35° API and proceeds to the producer at this time are approximately \$27.56 per barrel after deducting taxes. The purchaser is Navajo Crude Oil Purchasing Co. and the Permian Corporation.

There are approximately 880 surface acres in the properties being considered for inclusion in the flood.

First, discussion toward unitization was had at an operators meeting held in 1978 in Roswell, New Mexico and efforts to unitize have continued since that time; the last meeting being held in Roswell on November 4, 1982.

The unit area was determined by including all the acreage which appeared to have productive sand as reflected by the isopachous map. Some acreage is therefore included which does not have a well on the 40 acres. It was felt necessary to include a minimum of this acreage in order to protect the unit.

SUMMARY & CONCLUSIONS

The engineering committee anticipates that:

- (1) Secondary oil can be produced at a ratio of 1.0 to that of estimated ultimate primary which would yield approximately 182,000 barrels of additional oil.
- (2) The life of the flood would extend over a period of approximately 15 years.
- (3) A total profit of \$3,025,438 before Federal Income Taxes would be gathered over the life of the flood.
- (4) An effort to unitize the field has been made using the following
formula: Net Ac-Ft of Pay - 1/3
 Cum. oil prod. - 1/3
 Present oil prod. - 1/3
- (5) The working interest owners have accepted the above listed parameters for unitization.

INJECTION RATE AND FILL-UP TIME

From waterflood experience in the area, injection rates should average 300 b/d/well during fill-up. Fill-up time should take about 17 months, but the first increase in production should occur about 5 months after water injection is initiated. Initial injection rates should be about 2100 b/d into 7 injection wells. Water for flooding will have to be purchased from the City of Carlsbad lines.

PARAMETERS

After discussing many parameters, the following formula was selected and agreed upon by the working interest owners.

Tract participation: $1/3A + 1/3B + 1/3C$

Where A = Net acre-feet of pay in each tract.

B = Cumulative oil production in each tract through September, 1983.

C = Present oil production in each tract.

SECONDARY RESERVES

The nearest Queen Sand flood is that of the Sulimar field which is directly East of this property and operated by Jack McClellan. The Sulimar flood has recovered more than twice the primary production under waterflood. The purpose of the above is to indicate that floodable Queen Sand is located in the immediate vicinity of the proposed Lucky Lake Unit. It is, of course, well known that there have been many successful Queen Sand floods over a portion of New Mexico and Western Texas.

Burk Royalty Co. operates the Double "L" Queen Unit which is within a few miles of the proposed waterflood. This flood has been very successful as present production is over 400 barrels per day. More than 600,000 barrels has been recovered under the secondary waterflood.

BASIC DATA:

Original Oil in Place

$$\text{OOIP} = \frac{7758 \times \text{Ac-Ft} \times \text{Sat.} \times \text{Porosity}}{\text{Formation Vol. Factor}}$$

$$= \frac{7758 \times 1727 \times 0.65 \times 0.23}{1.2}$$

$$= 1,669,176 \text{ barrels}$$

Primary Recovery Efficiency - % of OOIP

$$\text{Pri. Rec.} = 181,596 / 1,669,176 = 10.88\%$$

Secondary Recovery

$$\begin{aligned} * \text{Sec. Rec.} &= 1.0 \times \text{Primary Oil Recovery} \\ &= 1.0 \times 182,000 \\ &= 182,000 \text{ barrels} \end{aligned}$$

*This is a very conservative estimate and will probably be exceeded. The Sulimar Flood, which is 5 miles East of the South Lucky Lake, has recovered over twice as much secondary oil as primary oil production.

ECONOMICS

The economic analysis which follows has been determined using figures which are thought reasonable for the depth and area.

OPERATING COSTS

Average Operating Costs are expected to be \$3,500/well/year, including district level overhead. Raw water required for fill-up and make-up is estimated to cost 6.0¢/barrel. Handling of produced and make-up water is estimated to cost 15¢/barrel (Includes plant operating expense) Workover Cost at \$1,000/well/year - first 3 years.

INVESTMENTS - FLOOD INSTALLATION

Well conversion expense @ \$3,000/well, 8 wells	= \$ 24,000
Water Plant - designed to handle 2,500 B/D	= 80,000
Injection Lines & System	= 55,000
Water Return System	= 98,000
Relocate Batteries & Consolidate	= 50,000
Injection tubing	= 62,000
Pumping Units (8 - 57D @ \$8,500)	= 68,000
Electrification of Unit	= 60,000
	<u>\$497,000</u>

ECONOMIC ANALYSIS - WATERFLOOD, Unit Effective 3-1-84

Oil Price = \$27.75 (Net)

INCOME:

Net Oil	182,000 B @ \$27.75	= \$5,050,500
Net Gas	Estimated	= 50,000
Total		<u>\$5,100,500</u>
Net Income After .125 Royalty		= <u>\$4,462,938</u>
Total WI Income		<u>\$4,462,938</u>

EXPENSE:

Investment	\$497,000	
Workover	45,000	
Well Operation	787,500	
Water Cost	75,000	
Water Hauling	33,000	<u>\$1,437,500</u>
Profit BFIT		\$3,025,438

WATER AVAILABILITY AND FLOOD PATTERN

It appears that the only readily available water supply is that furnished by the City of Carlsbad of New Mexico. This company is furnishing water for the Double "L" Queen flood. The price of this water would be 6.0¢ per barrel if the Unit lays the line to the water source.

A map is included which indicates proposed injection wells.

The following wells are to be converted to water injection wells:

Tract 1 - No. 1

Tract 2 - No. 1

Tract 2 - No. 4

Tract 3 - No. 1

Tract 4 - No. 1

Tract 5 - No. 1

Tract 7 - No. 1

GEOLOGICAL REPORT

The South Lucky Lake Queen Field is productive from Permian Queen sand at depths of 1,700-1,820 feet. It is a stratigraphic trap caused by loss of porosity and permeability updip to the west, forming a concave-eastward pinch-out line. Water is found on the down-dip margins of this trap. Dip is 40' to 60' per mile in an easterly direction, and there is a prominent east-trending nosing in the center of the field.

Initially, several wells on the west margin of the field exhibited GOR's in excess of 10,000-1 due to proximity to the gas cap to the west.

A gas-oil contact was originally found at a Queen datum of +2,085' in the Dalport #1 Jones-Federal, NW SW Sec. 22. Due to gas withdrawals in the gas cap, the G/O contact has moved updip to the west and is now at a datum of +2,094'. This is proven by the fact that the Yates #1 Kimes, NE NE Sec. 28, was a gas well at a datum of +2,094'. Some oil was recently tested from this well.

The high GOR wells were:

Dalport #1 Jones-Federal NW SW Sec. 22, 15S-29E

Dalport #2 Jones-Federal SW SW Sec. 22, 15S-29E

Dalport #2 Owen-Federal NE NE Sec. 21, 15S-29E

This gas is 500 BTU and contains 60-65% nitrogen.

The oil/water contact is at +2,066' and was encountered in the Dalport #4 Jones-Federal, SE SW Sec. 22. There is no effective water drive in the field, as the drive mechanism is due to expansion of the gas cap and solution gas. The western edge of the field is delineated by tight sand in a dry hole in the NE SW Sec. 21.

The pay is gray-brown, fine-grained to very fine-grained, well sorted, subrounded quartz sand. Black dead oil (gilsonite) is found in most wells. Although several wells were drilled with rotary rigs, only one core was taken in the Dalport #3 Jones-Federal.

Average data is as follows:

Net pay 10'	Oil saturation 17.5%
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Porosity 23.8%	SW saturation 49.4%
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Permeability (over 5 md) 102 md

Net pay was estimated from neutron logs, cable tool samples, and the core analysis.

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Jan.		194	312	832	375	179
Feb.		224	249	740	627	73
Mar.		251	307	788	717	77
Apr.		288	288	785	659	126
May		287	305	777	633	191
Jun.		255	299	605	533	168
Jul.		247	298	749	501	100
Aug.		286	631	641	397	159
Sept.		255	864	531	322	158
Oct.		280	1,036	521	271	143
Nov.		284	728	528	411	160
Dec.	<u>139</u>	<u>270</u>	<u>782</u>	<u>332</u>	<u>267</u>	<u>223</u>
	139	3,121	6,299	7,829	5,713	1,757

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	
Jan.	211	187	120	120	
Feb.	193	134	103	137	
Mar.	212	158	112	148	
Apr.	182	28	109	127	
May	205	84	126	116	
Jun.	201	128	106	72	
Jul.	210	89	109	95	
Aug.	170	67	89	90	
Sept.	126	112	155	95	
Oct.	118	92	101		
Nov.	286	125	132		
Dec.	219	122	110		
	<u>2,333</u>	<u>1,326</u>	<u>1,372</u>	<u>1,000</u>	<u>30,889</u>
					Cumulative lease total

DALPORT OIL CORP.
Todhunter-Federal

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Jan.		178	115	77	1,602	437
Feb.		182	88	63	1,025	462
Mar.		174	105	116	1,169	505
Apr.		149	108	83	1,019	597
May	520	151	102	105	937	599
Jun.	463	121	96	85	958	571
Jul.	282	130	95	453	1,029	468
Aug.	251	115	102	615	849	413
Sept.	177	135	102	1,122	782	328
Oct.	176	101	106	2,321	705	392
Nov.	168	112	61	2,054	515	397
Dec.	166	104	98	1,556	608	357
	<u>2,203</u>	<u>1,652</u>	<u>1,178</u>	<u>8,650</u>	<u>11,198</u>	<u>5,526</u>

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Jan.	411	308	261	196	161	111
Feb.	328	246	230	194	126	108
Mar.	441	259	249	170	181	78
Apr.	305	224	164	162	143	101
May	664	265	205	175	126	98
Jun.	311	234	188	140	121	68
Jul.	337	253	194	137	113	107
Aug.	375	254	221	211	115	99
Sept.	354	196	220	158	111	75
Oct.	380	298	194	166	121	
Nov.	332	268	191	160	111	
Dec.	339	186	186	157	112	
	<u>4,577</u>	<u>2,991</u>	<u>2,503</u>	<u>2,026</u>	<u>1,541</u>	<u>845</u>

*These figures actually add up to 44,890. The Annual Report of the New Mexico Oil & Gas Engineering Committee, however indicate a figure of 44,290 and that is what we used for our calculations.

Cumulative lease
total = 44,290

BISON PETROLEUM CORP.
Owen-Federal

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Jan.	10	343	319	128	183	123
Feb.	27	613	242	192	158	109
Mar.	248	519	266	179	158	191
Apr.	797	319	297	130	174	173
May	647	406	167	170	130	118
Jun.	571	313	225	117	123	153
Jul.	711	313	173	180	103	143
Aug.	528	259	231	158	123	130
Sept.	483	213	264	100	93	142
Oct.	303	473	221	89	125	134
Nov.	221	362	183	171	114	102
Dec.	458	356	174	176	159	181
	5,004	4,489	2,762	1,790	1,643	1,699

	<u>1982</u>	<u>1983</u>		Cumulative lease total	<u>20,017</u>
Jan.	148	146			
Feb.	87	144			
Mar.	108	208			
Apr.	133	138			
May	170	75			
Jun.	147	104			
Jul.	141	122			
Aug.	128	116			
Sept.	125	132			
Oct.	115				
Nov.	143				
Dec.	0				
	1,445	1,185			

DALPORT OIL CORP.
Jones-Federal

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Jan.		450	421	*4,677	400	335
Feb.		459	444	423	266	270
Mar.		515	515	154	351	888
Apr.		437	355	0	322	282
May	514	411	366	0	322	294
Jun.	771	616	344	224	275	249
Jul.	634	445	354	441	272	282
Aug.	324	317	289	447	294	262
Sept.	601	313	298	419	276	238
Oct.	282	212	402	293	295	211
Nov.	426	423	325	361	278	245
Dec.	524	289	355	381	265	240
	<u>4,076</u>	<u>4,887</u>	<u>4,468</u>	<u>8,023</u>	<u>3,616</u>	<u>3,796</u>

	<u>1982</u>	<u>1983</u>	
Jan.	236	168	
Feb.	239	166	
Mar.	262	191	
Apr.	235	167	
May	180	180	
Jun.	176	175	
Jul.	167	133	
Aug.	182	142	
Sept.	172	140	
Oct.	163		
Nov.	212		
Dec.	173		
	<u>2,397</u>	<u>1,462</u>	Cumulative lease total
			<u><u>32,725</u></u>

*Monthly production for Well #1 prior to 1979 was not listed, however it was included in cumulative figure.

READ & STEVENS
South Lucky Lake Federal

	<u>1982</u>	<u>1983</u>
Jan.		98
Feb.	28	33
Mar.	36	36
Apr.	96	47
May	7	41
Jun.	22	47
Jul.	17	37
Aug.	38	43
Sept.	30	42
Oct.	14	
Nov.	15	
Dec.	<u>30</u>	
	333	424
		Cumulative lease total <u>757</u>

READ & STEVENS
Lucky Lake

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Jan.	0	542	407	305	293	226
Feb.	446	455	311	316	269	187
Mar.	1,006	487	318	304	261	195
Apr.	938	450	326	274	199	224
May	948	488	334	258	252	187
Jun.	806	307	362	264	197	208
Jul.	549	486	374	292	232	205
Aug.	723	459	382	303	187	200
Sept.	688	454	304	228	221	219
Oct.	644	457	337	201	199	219
Nov.	546	433	313	303	216	187
Dec.	553	367	371	292	182	184
	7,867	5,385	4,139	3,340	2,708	2,441

	<u>1982</u>	<u>1983</u>	
Jan.	224	183	
Feb.	188	229	
Mar.	191	187	
Apr.	201	157	
May	175	238	
Jun.	174	177	
Jul.	187	175	
Aug.	200	187	
Sept.	179	226	
Oct.	160		
Nov.	203		
Dec.	201		
	2,283	1,759	Cumulative lease total <u>29,922</u>

READ & STEVENS
#1-16 Harris

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Jan.		446	428	223	154	124
Feb.		467	317	219	139	127
Mar.		437	357	185	161	126
Apr.	1,188	470	321	132	157	102
May	922	396	280	242	162	103
Jun.	1,013	436	293	185	177	94
Jul.	503	395	317	199	166	83
Aug.	774	390	256	203	146	107
Sept.	581	261	255	212	148	108
Oct.	536	442	265	201	143	114
Nov.	481	365	275	210	148	90
Dec.	<u>480</u>	<u>340</u>	<u>271</u>	<u>168</u>	<u>152</u>	<u>89</u>
	6,478	4,845	3,635	2,379	1,853	1,267

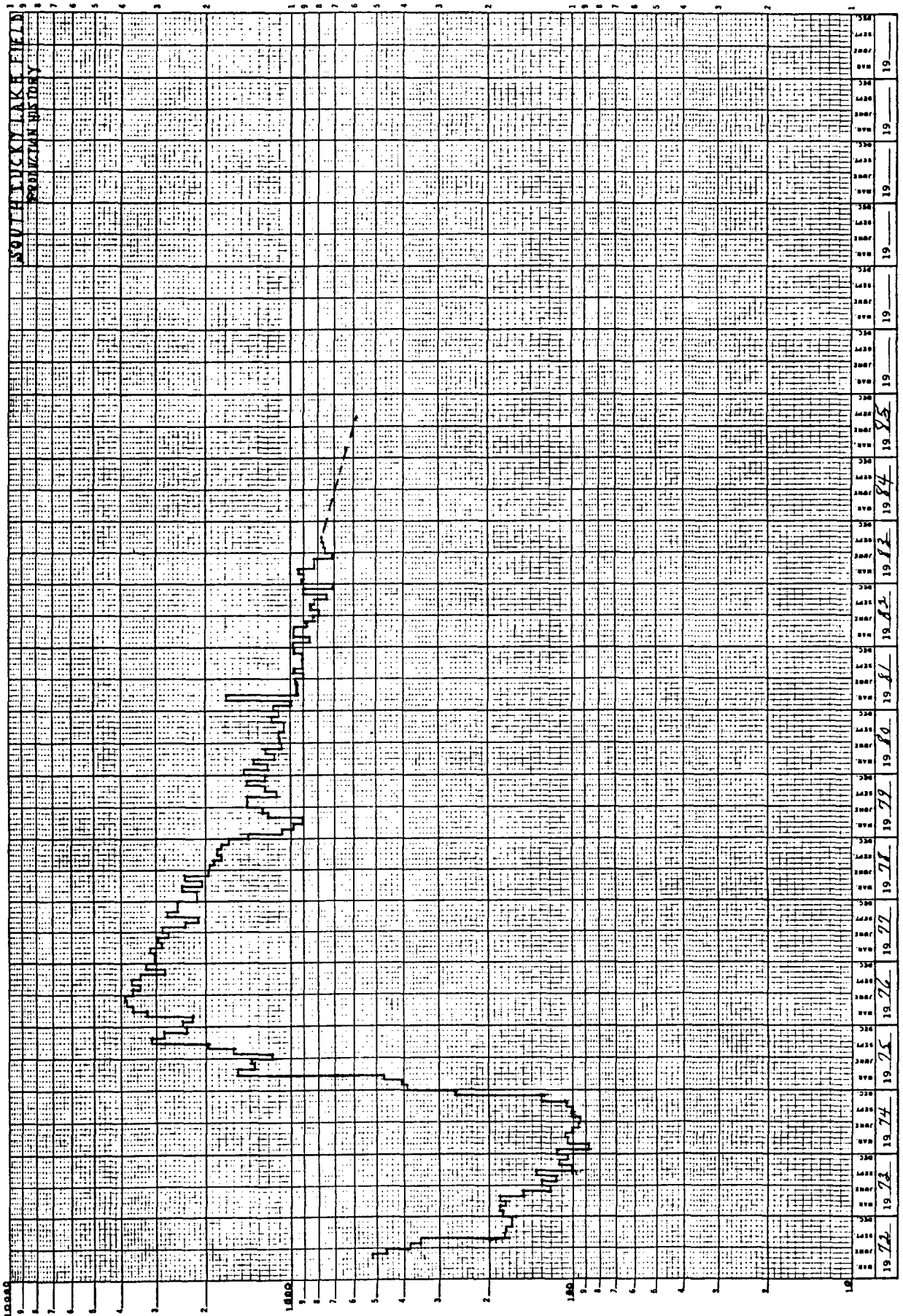
	<u>1981</u>	<u>1982</u>	<u>1983</u>		
Jan.	84	89	83		
Feb.	100	79	81		
Mar.	91	89	88		
Apr.	75	82	85		
May	86	87	76		
Jun.	84	83	74		
Jul.	44	63	85		
Aug.	97	98	86		
Sept.	41	65	64		
Oct.	87	68			
Nov.	83	84			
Dec.	<u>86</u>	<u>86</u>			
	958	973	722		
			Cumulative lease total	<u><u>23,110</u></u>	

SOUTH LUCKY LAKE FIELD
CHAVES COUNTY, NEW MEXICO
PARAMETERS FOR UNITIZATION

OPER. LEASE	PROD. ACRES	ACRE-FT.	% PART	CUM OIL PROD.	% PART	PRES. PROD.	% PART	LEASE % PART	*LEASE % PART
<u>DALPORT</u>									
Jones Fed.	116.50	602.10	0.34858	32,725	0.18010	166	0.28279	0.27049	0.25775
T.H. Fed.	108.90	547.90	0.31720	44,290	0.24374	104	0.17718	0.24605	0.24327
		1150.00	0.66578	77,015	0.42384	270	0.45997	0.51654	0.50102
<u>BISON</u>									
Owens Fed.	23.50	71.70	0.04151	20,017	0.11015	70	0.11925	0.09030	0.10558
<u>READ & STEVENS</u>									
Harris	30.10	127.00	0.07352	23,110	0.12717	39	0.06644	0.08904	0.09479
Lucky Lake	40.00	180.40	0.10444	29,922	0.16467	121	0.20613	0.15841	0.15272
S.L.L. Fed.	7.20	12.90	0.00747	757	0.00417	32	0.05451	0.02205	0.01245
		320.30	0.18543	53,789	0.29601	192	0.32708	0.26950	0.25996
<u>YATES</u>									
D.H. Fed.	37.40	164.90	0.09547	30,889	0.17000	55	0.09370	0.11972	0.12949
<u>UNLEASED</u>									
Kimes	7.10	20.40	0.01181	0	0	0	0	0.00394	0.00394
TOTAL	370.70	1727.30	1.00000	181,710	1.00000	587	1.00000	1.00000	1.00000

*Lease % Participation as presented in the Unit Agreement.

BARRELS / MONTH



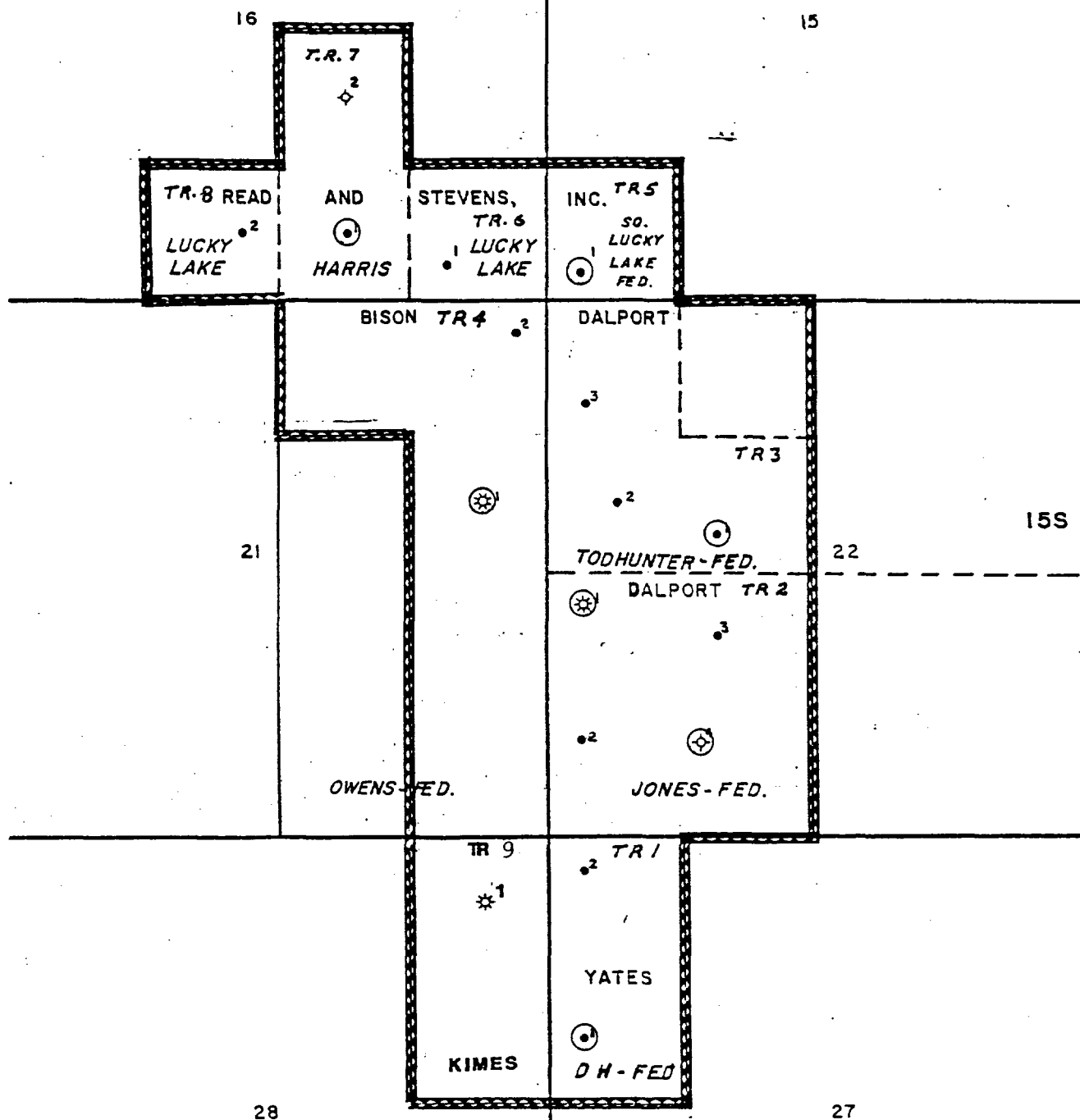


EXHIBIT "A"
 S. LUCKY LAKE QUEEN UNIT
 CHAVES CO., NEW MEXICO
 SCALE: 1" = 1562' ±

16

15

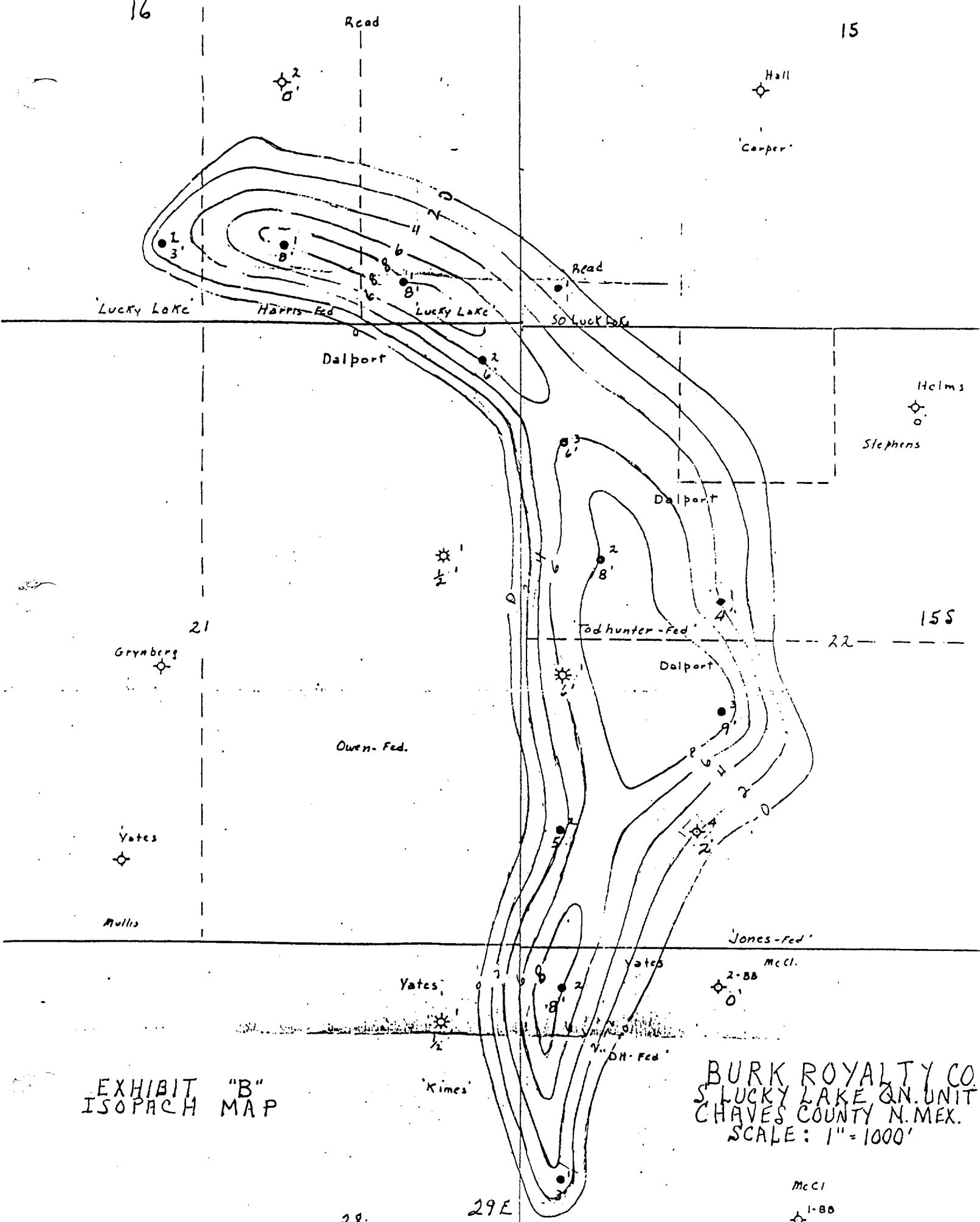
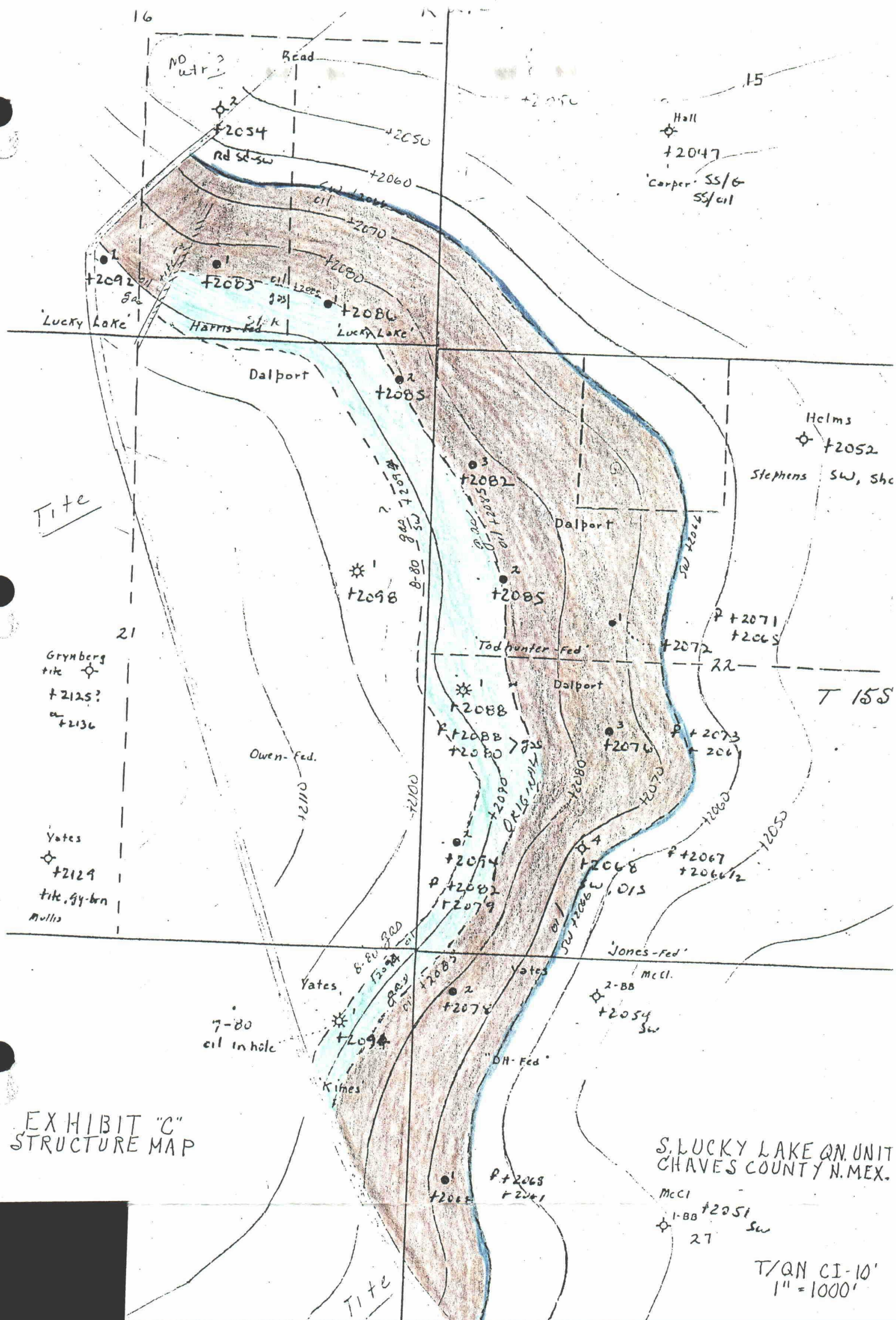


EXHIBIT "B"
ISOPACH MAP

BURK ROYALTY CO.
S. LUCKY LAKE QN. UNIT
CHAVES COUNTY N. MEX.
SCALE: 1" = 1000'



PROPOSED SOUTH LUCKY LAKE QUEEN UNIT

Chaves County, New Mexico

REVISION

Cumulative oil production through August, 1985 was 194,945 barrels.

Oil production for August, 1985 was 580 barrels. The oil production curve has been extrapolated to include this figure.

Present price of crude sold is \$26.79 per barrel.

Burk Royalty Co.'s Double "L" Queen Waterflood has produced 876,416 barrels of secondary oil through November, 1985.

City of Carlsbad water cost is 8.0¢ per barrel.