Case 1081: Skelly Oil Co., Application
for Unit Agreement, West Tatum Unit
embracing All of Secs. 26 &35, T12S-R35E
Lea County

Case No.

1081

Application, Transcript,
Small Exhibits, Etc.

Memo

From

To

Unit Agreement to
Gurley on 5-2-56
for checking.

SKELLY OIL COMPANY

TULSA 2, OKLAHOMA

April 26, 1956

AIRMAIL

West Tatum Unit
Lea County, New Mexico

Mr. A. L. Porter, Jr.
New Mexico Oil Conservation Commission
Box 871
Santa Fe, New Mexico

Dear Sir:

We are enclosing herewith one copy each of Unit Operating Agreement and Unit Agreement affecting the above captioned unit. This letter supplements Mr. Selinger's letter application of April 25, 1956, and we ask that the Commission please advise as soon as possible as to its approval of both the Operating Agreement and Unit Agreement.

By copy of this letter directed to the Commissioner of Public Lands, we are furnishing said Commissioner with a copy of each agreement.

We wish to advise that the copies enclosed herein are only preliminary copies which have been approved by Skelly and Sinclair. Upon receipt of Commission approval, we shall secure execution of original copies and furnish the Commission with fully signed counterparts.

Yours very truly,

LEASE RECORDS DIVISION

W. J. Stewart

WJS/b
Encls.

cc: Commissioner of Public Lands
State Capitol Building
Santa Fe, New Mexico
Att: Unit Section

SKELLY OIL COMPANY

TULSA 2, OKLAHOMA

PRODUCTION DEPARTMENT
J. S. FREEMAN, VICE PRESIDENT

April 25, 1956

Re: Approval of West Tatum Unit Agreement
Lea County, New Mexico

Mr. A. L. Porter, Jr.
New Mexico Oil Conservation Commission
Box 871
Santa Fe, New Mexico

Dear Sir:

We desire this letter to be our application for hearing before the Commission on its May 16 docket for approval of a proposed Skelly operated unit agreement between Skelly Oil Company and Sinclair Oil and Gas Company covering 1280 acres as follows: All of Sections 26 and 35, Township 12 South, Range 35 East, Lea County, New Mexico.

Attached hereto are three exhibits indicating the unit area involved, the schedule of percentage and ownership of oil and gas interest in the lands and a structure map of the seismic interpretation near the Devonian horizon showing that the unit will cover substantially all of the proper productive area. All of the lands covered in the above description are state lands and we desire to drill a proposed Devonian test to approximately 13,200', with the proposed location being in the SE SW of Section 26, Township 12 South, Range 35 East, Lea County, New Mexico.

You will note from the attached exhibits that our information indicates the following companies have acreage offsetting the unit: Vicars, Gulf, R. Nix, Sinclair, Phillips, E. D. White, E. G. Levick, R. H. Davis. Within the unit Sinclair and Skelly.

Preliminary copies of the unit agreement and operating agreement are being sent to both the Commission and Land Commissioner so that they can each be familiar prior to the hearing.

Yours very truly,

SKELLY OIL COMPANY

By George W. Selinger
George W. Selinger

GWS:zmr
cc-List Attached

cc-Honorable E. S. Walker
Land Commissioner
Mabry Hall
Santa Fe, New Mexico

Mr. J. N. Dunlavey

Mr. W. J. Stewart

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO FOR THE PURPOSE OF CONSIDERING:

CASE NO. 1081
Order No. R-847

THE APPLICATION OF SKELLY OIL COMPANY FOR THE APPROVAL OF THE WEST TATUM UNIT AGREEMENT EMBRACING 1280 ACRES, MORE OR LESS, LOCATED IN TOWNSHIP 12 SOUTH, RANGE 35 EAST, NMPM, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on June 14, 1956 at Santa Fe, New Mexico, before the New Mexico Oil Conservation Commission, hereinafter referred to as the "Commission".

NOW, on this 1st day of August 1956, the Commission, a quorum being present, having considered the record and testimony adduced, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the proposed unit plan will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

1. That this order shall be known as the

WEST TATUM UNIT AGREEMENT ORDER

2. (a) That the project herein referred to shall be known as the West Tatum Unit Agreement and shall hereinafter be referred to as the "Project."

(b) That the Plan by which the project shall be operated shall be embraced in the form of a unit agreement for the development and operation of the West Tatum Unit Area, referred to in the Petitioner's petition and filed with said petition, and such plan shall be known as the West Tatum Unit Agreement Plan.

3. (a) That the West Tatum Unit Agreement Plan shall be, and hereby is, approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing in any manner any right, duties or obligations which are now, or may hereafter, be vested in the New Mexico Oil Conservation Commission by law relative to the supervision and control of operations for exploration and development of any lands committed to said West Tatum Unit Agreement, or relative to the production of oil and gas therefrom.

(b) That the unit operator periodically shall file with the Commission a West Tatum Unit Statement of Progress, summarizing operations for the exploration and development of any lands committed to said West Tatum Unit Agreement. This statement of progress shall be filed within 30 days after the expiration of each six-months period during the term of the unit agreement, and shall contain such pertinent data as may be necessary for the Commission to determine the progress being made in the West Tatum Unit Area.

4. (a) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

TOWNSHIP 12 SOUTH, RANGE 35 EAST
All Section 26
All Section 35

Situated in Lea County, New Mexico and containing 1280 acres more or less.

(b) The unit area may be enlarged as provided in said Plan.

5. That the unit operator shall file with the Commission an executed original or executed counterpart of the West Tatum Unit Agreement within 30 days after the effective date thereof.

6. That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the effective date thereof may thereafter become a party thereto by subscribing to such agreement or counterpart thereof, or by ratifying the same. The unit operator shall file with the Commission within 30 days an original of any such counterpart or ratification.

7. That this Order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands

of the State of New Mexico and shall terminate ipso facto upon the termination of said unit agreement. The last unit operator shall immediately notify the Commission in writing of such termination.

DONE at Santa Fe, New Mexico on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JOHN F. SIMMS, Chairman

E. S. WALKER, Member

A. L. PORTER, Jr., Member & Secretary

ir/

DOMESTIC SERVICE

Check the class of service desired; otherwise this message will be sent as a full rate telegram

FULL RATE TELEGRAM	
DAY LETTER	
NIGHT LETTER	

$
S
E

WESTERN UNION

W. P. MARSHALL, PRESIDENT

1206 10-51

INTERNATIONAL SERVICE

Check the class of service desired; otherwise the message will be sent at the full rate

FULL RATE	
LETTER TELEGRAM	
SHIP RADIOGRAM	

NO. WDS.-CL. OF SVC.	PD. OR COLL.	CASH NO.	CHARGE TO THE ACCOUNT OF	TIME FILED
			OIL CONSERVATION COMMISSION	

he following message, subject to the terms on back hereof, which are hereby agreed to

JULY 31, 1956

GEORGE W. SELINGER
SKELLY OIL CO.
TULSA, OKLAHOMA

ORDER R-847 IN CASE 1081, WEST TATUM UNIT, WILL BE DATED AUGUST 1, 1956.

A. L. PORTER, JR.
OIL CONSERVATION COMMISSION

ALL MESSAGES TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWING TERMS:

To guard against mistakes or delays, the sender of a message should order it repeated, that is, telegraphed back to the originating office for comparison. For this, one-half the unrepeated message rate is charged in addition. Unless otherwise indicated on its face, this is an unrepeated message and paid for as such, in consideration whereof it is agreed between the sender of the message and the Telegraph Company as follows:

1. The Telegraph Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any message received for transmission at the unrepeated-message rate beyond the sum of five hundred dollars; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any message received for transmission at the repeated-message rate beyond the sum of five thousand dollars, unless specially valued; nor in any case for delays arising from unavoidable interruption in the working of its lines.

2. In any event the Telegraph Company shall not be liable for damages for mistakes or delays in the transmission or delivery, or for the non-delivery, of any message, whether caused by the negligence of its servants or otherwise, beyond the actual loss, not exceeding in any event the sum of five thousand dollars, at which amount the sender of each message represents that the message is valued, unless a greater value is stated in writing by the sender thereof at the time the message is tendered for transmission, and unless the repeated-message rate is paid or agreed to be paid and an additional charge equal to one-tenth of one per cent of the amount by which such valuation shall exceed five thousand dollars.

3. The Telegraph Company is hereby made the agent of the sender, without liability, to forward this message over the lines of any other company when necessary to reach destination.

4. The applicable tariff charges on a message destined to any point in the continental United States listed in the Telegraph Company's Directory of Stations cover its delivery within the established city or community limits of the destination point. Beyond such limits and to points not listed in the Telegraph Company's Directory of Stations, the Telegraph Company does not undertake to make delivery but will endeavor to arrange for delivery by any available means as the agent of the sender, with the understanding that the sender authorizes the collection of any additional charge from the addressee and agrees to pay such additional charge if it is not collected from the addressee.

5. No responsibility attaches to the Telegraph Company concerning messages until the same are accepted at one of its transmitting offices; and if a message is sent to such office by one of the Telegraph Company's messengers, he acts for that purpose as the agent of the sender; except that when the Telegraph Company sends a messenger to pick up a message, the messenger in that instance acts as the agent of the Telegraph Company in accepting the message, the Telegraph Company assuming responsibility from the time of such acceptance.

6. The Telegraph Company will not be liable for damages or statutory penalties when the claim is not presented in writing to the Telegraph Company, (a) within ninety days after the message is filed with the Telegraph Company for transmission in the case of a message between points within the United States (except in the case of an intrastate message in Texas) or between a point in the United States on the one hand and a point in Alaska, Canada, Mexico, or St. Pierre-Miquelon Islands on the other hand, or between a point in the United States and a ship at sea or in the air, (b) within 95 days after the cause of action, if any, shall have accrued in the case of an intrastate message in Texas, and (c) within 180 days after the message is filed with the Telegraph Company for transmission in the case of a message between a point in the United States and a foreign or overseas point other than the points specified above in this paragraph; provided, however, that this condition shall not apply to claims for damages or overcharges within the purview of Section 415 of the Communications Act of 1934, as amended.

7. It is agreed that in any action by the Telegraph Company to recover the tolls for any message or messages the prompt and correct transmission and delivery thereof shall be presumed, subject to rebuttal by competent evidence.

8. Special terms governing the transmission of messages according to their classes, as enumerated below, shall apply to messages in each of such respective classes in addition to all the foregoing terms.

9. No employee of the Telegraph Company is authorized to vary the foregoing.

4-54

CLASSES OF SERVICE

DOMESTIC SERVICES

TELEGRAM

The fastest domestic service.

DAY LETTER (DL)

A deferred same-day service, at low rates.

NIGHT LETTER (NL)

Economical overnight service. Accepted up to 2 A. M. for delivery the following morning, at rates lower than the Telegram or Day Letter rates.

INTERNATIONAL SERVICES

FULL RATE (FR)

The fastest overseas service. May be written in code, cipher, or in any languag pressed in Roman letters.

LETTER TELEGRAM (LT)

For overnight plain language messages, at half-rate. Minimum charge for 22 words applies.

SHIP RADIOGRAM

For messages to and from ships at sea.

CLASS OF SERVICE
This is a fast message unless its deferred character is indicated by the proper symbol.

WESTERN UNION
TELEGRAM

W. P. MARSHALL, PRESIDENT

1201

SYMBOLS
DL=Day Letter
NL=Night Letter
LT=International Letter Telegram

The filing time shown in the date line on domestic telegrams is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

MAIN OFFICE OCC
1955 JUL 30 AM 8 57

LA034 KA105
1955 JUL 30 AM 9:04

(49)

K TUB068 PD=WUX TULSA OKLA 30 943AMC=
A L PORTER JR=
NEW MEXICO OIL CONSERVATION COMMISSION SANTA FE NMEX=
RE CASE 1081, WEST TATUM UNIT, ADVISE ORDER NUMBER AND
DATE=
GEORGE W SELINGER SKELLY OIL CO=

547

Order #

1081=

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

Fri. 9 pm

Warren I suggest
you see Salinger
[illegible] about putting
this on your May
22 or 23 Executive
Docket.

Pete

CLASS OF SERVICE
This is a fast message unless its deferred character is indicated by the proper symbol.

WESTERN UNION
TELEGRAM

W. P. MARSHALL, PRESIDENT

1201

SYMBOLS
DL = Day Letter
NL = Night Letter
LT = International Letter Telegram

The filing time shown in the date line on domestic telegrams is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

LA146 KB209

(18)

K TUB277 PD=TULSA OKLA 1 210PMC=

W W MANKIN=

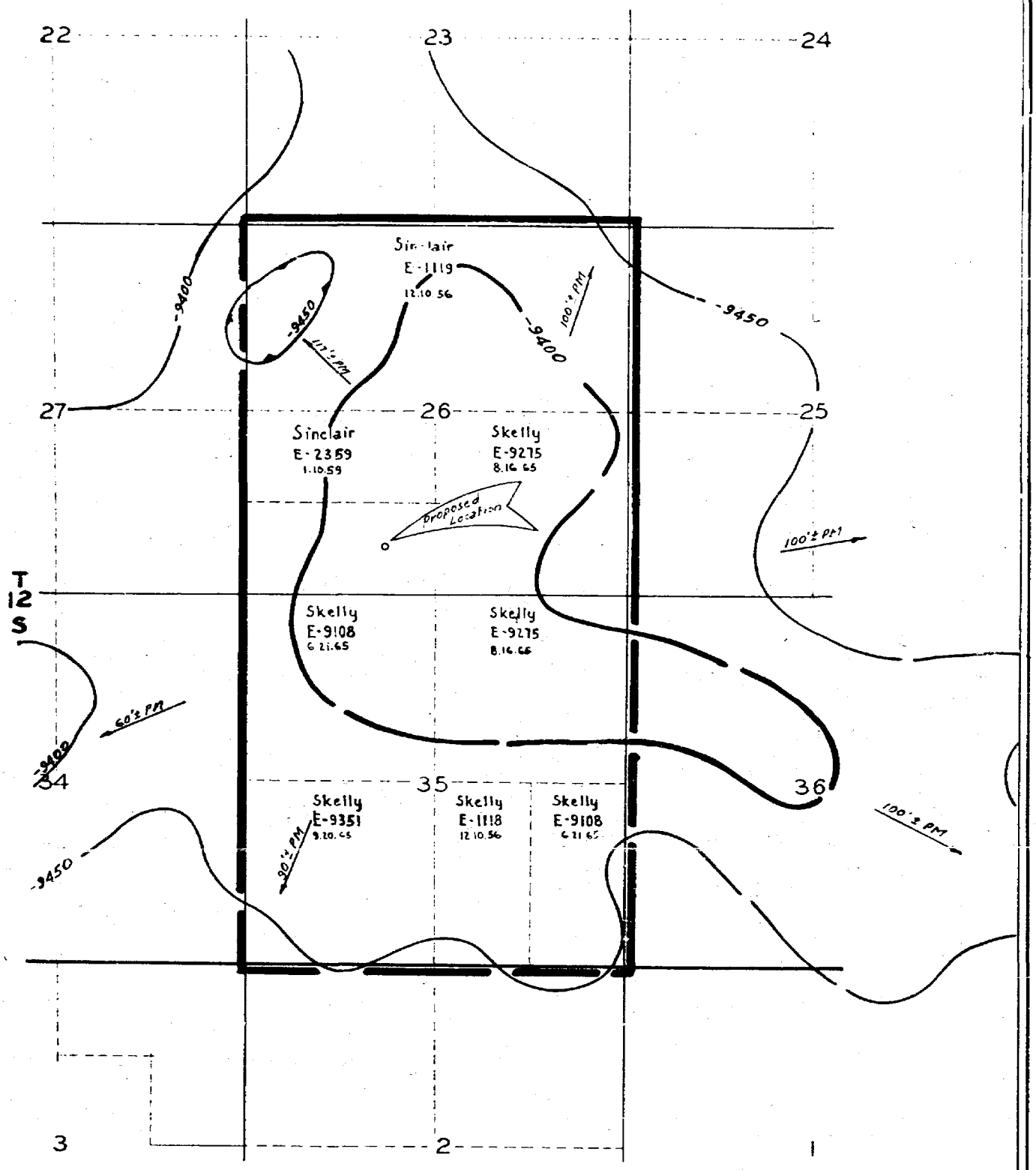
NEW MEXICO OIL CONSERVATION COMMISSION 125 MABRY HALL SANTA FE NMEX=

JUNE 14 SATISFACTORY DATE FOR HEARING OUR APPLICATION ON WEST TATUM UNIT=

GEORGE W SELINGER SKELLY OIL CO=

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

R-35-E



STRUCTURE MAP
SEISMIC INTERPRETATION
NEAR DEVONIAN HORIZON

EXHIBIT "C"

SKELLY OIL COMPANY-OPERATOR

WEST TATUM UNIT

T-12-S R-35-E

LEA COUNTY, NEW MEXICO

SCALE: 1"=2000'

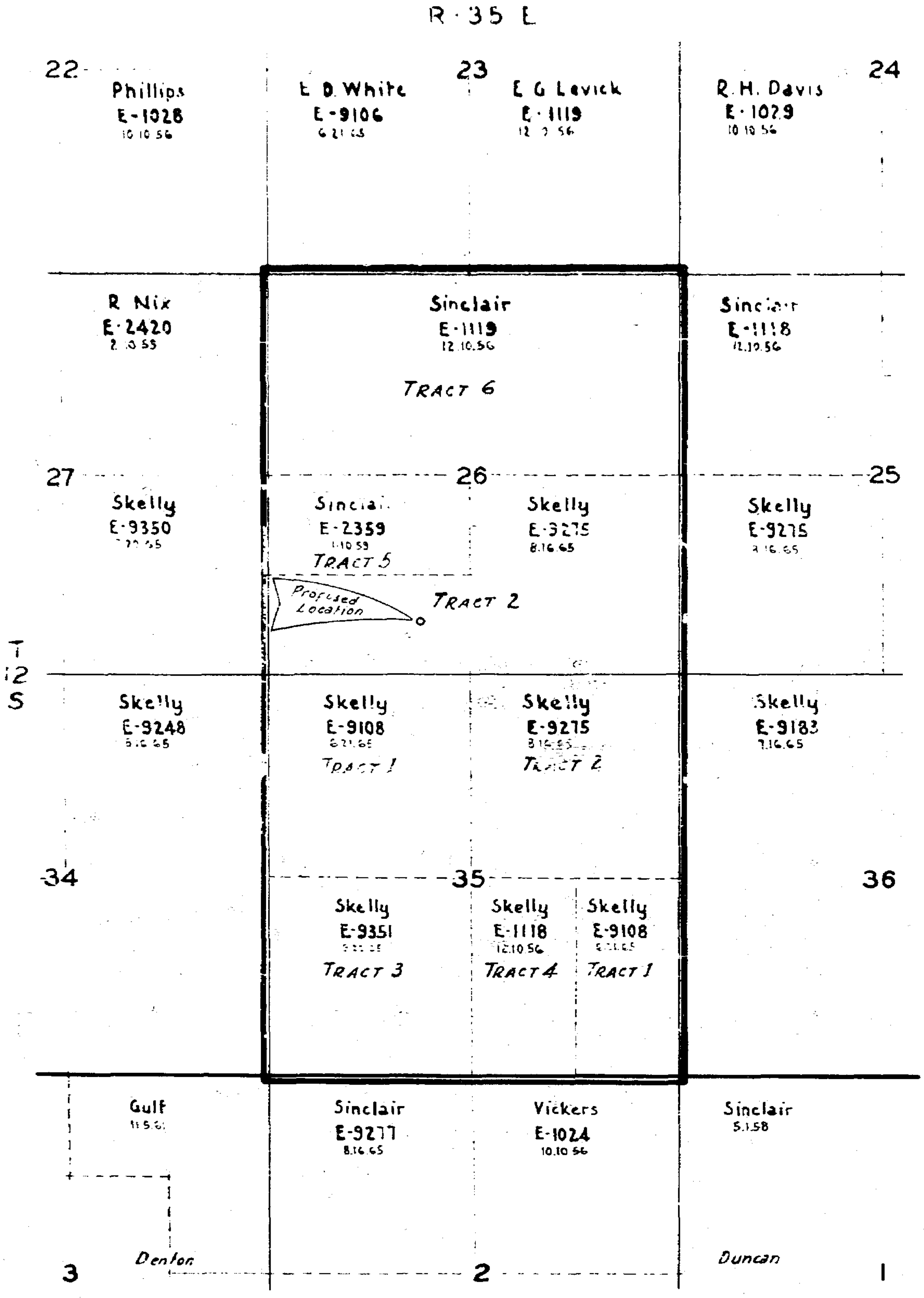


EXHIBIT "A"

SKELLY OIL COMPANY-OPERATOR

WEST TATUM UNIT

T-12-S R-35-E

LEA COUNTY, NEW MEXICO

SCALE: 1" = 2000'

In reply refer to:
Unit Division

August 8, 1956

Skelly Oil Company
Tulsa 2, Oklahoma

Re: West Tatum Unit
Agreement
Lea County, N. Mex.

Attention: Mr. W. J. Stewart
Lease Records Division

Dear Mr. Stewart:

I have discussed the problem which has arisen as to the effective date of the West Tatum Unit Agreement with our attorney Mr. Oscar Jordan and with Mr. Dan Nutter of the New Mexico Oil Conservation Commission.

We are in agreement that the priviledges concerning the leases committed to the Unit were effective the date of the Commissioner's approval, June 15, 1956, however, due to the fact that Oil Conservation Order No. 847 was not issued until August 1, 1956, it is agreed that none of the obligations of the Unit were effective until that date.

I trust this is the verification you wished and we would suggest that you request the Oil Conservation Commission to concur on our interpretation of their order No. 847.

Very truly yours,

E. S. WALKER
Commissioner of Public Lands

MMR/m
cc: OCC-Santa Fe

OIL CONSERVATION COMMISSION
P. O. BOX 871
SANTA FE, NEW MEXICO

August 1, 1956

COPY

Mr. George W. Selinger
Skelly Oil Company
P.O. Box 1650
Tulsa, Oklahoma

Dear Sir:

We enclose two copies of Order R-847 issued August 1, 1956, by the Oil Conservation Commission in Case 1081, which was heard on June 14th.

Very truly yours,

A. L. Porter, Jr.
Secretary - Director

brp
Encls.

OIL CONSERVATION COMMISSION
P. O. BOX 871
SANTA FE, NEW MEXICO

July 23, 1956

COPY

Mr. George W. Selinger
Skelly Oil Company
P.O. Box 1650
Tulsa 2, Oklahoma

Dear Sir:

Reference is made to your letter of July 18th pertaining to the order in Case 1081, West Tatum Unit.

This order is in the process of being issued and we will send you copies as soon as they are available.

Very truly yours,

A. L. Porter, Jr.
Secretary - Director

brp

SKELLY OIL COMPANY

PRODUCTION DEPARTMENT
J. S. FREEMAN, VICE PRESIDENT

TULSA 2, OKLAHOMA

July 18, 1956

Mr. A. L. Porter, Jr.
New Mexico Oil Conservation Commission
Box 871
Santa Fe, New Mexico

Dear Sir:

On June 14, the Commission heard our application in Case 1081, West Tatum Unit in Sections 26 and 35, Township 12 South, Range 35 East, Lea County, New Mexico.

Will you be kind enough to send me several copies of the order at your earliest convenience.

Yours very truly,

George W. Selinger

GWS:zmr

BEFORE THE

Oil Conservation Commission

SANTA FE, NEW MEXICO

IN THE MATTER OF:

CASE NO. 1081

TRANSCRIPT OF PROCEEDINGS

DEARNLEY-MEIER AND ASSOCIATES
COURT REPORTERS
605 SIMMS BUILDING
TELEPHONE 3-6691
ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
June 14, 1956

IN THE MATTER OF:

Application of Skelly Oil Company for an order granting approval of the West Tatum Unit embracing 1280 acres, more or less, in Township 12 South, Range 35 East, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order granting approval of the Unit Agreement for the development and operation for its West Tatum Unit consisting wholly of State of New Mexico lands and embracing All of Sections 26 and 35, Township 12 South, Range 35 East, Lea County, New Mexico; said agreement having been entered into by Skelly Oil Company, as operator and Sinclair Oil and Gas Company.

Case No. 1081

BEFORE:

Mr. A. L. Porter
Mr. E. S. (Johnny) Walker
Honorable John F. Simms, Jr.

TRANSCRIPT OF HEARING

MR. PORTER: The next case on the docket is Case 1081.

MR. GURLEY: Application of Skelly Oil Company for an order granting approval of the West Tatum Unit embracing 1280 acres, more or less, in Township 12 South, Range 35 East, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order granting approval of the Unit Agreement for the development and operation for its West Tatum Unit consisting wholly of State of New Mexico lands and embracing All of Sections 26 and 35, Township 12 South, Range 35 East, Lea County, New Mexico; said agreement having been entered into by Skelly Oil Company, as operator and Sinclair Oil and Gas Company.

W. J. STEWART

having first been duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. SELINGER:

Q State your name. A W. J. Stewart.

Q You are associated with Skelly Oil Company?

A Yes, sir.

Q What capacity?

A Supervisor of Contracts and Units.

Q As such have you been investigating and acquiring the agreements with respect to a unit in Lea County designated as the West Tatum Unit? A Yes, sir, I have.

(Marked Skelly's Exhibits No. 1, and 2, for identification.)

Q As a result of your work, have you had compiled what has been designated as Skelly Exhibit 1 and 2, the unit agreement and unit operating agreement? A Yes, sir.

MR. SELINGER: We would like to offer into evidence the original unit agreement and unit operating agreement as Exhibits 1 and 2 with permission to withdraw same and substitute exact copies thereof in order for the originals to be lodged in the proper State agency.

GOVERNOR SIMMS: That will be fine.

Q Now, attached to both Exhibits 1 and 2 are three attachments marked A, B and C, is that correct? A Yes, sir.

Q They are the same? A Yes, sir.

Q Attachment A is the area that is designated as the West Tatum Unit with Skelly Oil Company as operator?

A That is correct.

Q The area sought in the unit agreement covers two sections, is that correct? A That is right.

Q Will you name those sections and describe them?

A All of Section 26 and 35, 12 South, 35 East, Lea County, New Mexico.

Q Is the entire acreage embraced within the unit owned by one lessor?

A Yes, the State of New Mexico.

Q And are the entire acreages owned by one or more lessee?

A By Sinclair and Skelly.

Q Have the two companies agreed as evidenced by unit operating agreement and your unit agreement? A Yes, sir.

Q Does the attachment A to both Exhibits indicate the proposed location of the well?

A Yes, sir. In the southeast quarter of the southwest quarter of Section 26.

Q Now, referring to attachment B of both exhibits, indicate to the Commission what that is briefly.

A It is a schedule of the leases in the unit and the ownership of same.

Q As attachment C is the structure map based on seismic interpretation near the Devonian horizon indicate that the area embraced in the unit covers all the probable productive acreage?

A Yes, sir.

Q Immediately adjacent to the area embraced in the unit, doesn't Sinclair and Skelly own the majority of the adjacent acreage? A They do.

Q Does your unit agreement provide for the enlargement of the unit? A Yes, sir.

Q If a well is drilled on this unit will it be drilled, operated and produced in accordance with the existing rules and regulations of the state? A It will.

MR. SELINGER: We offer in evidence Skelly's Exhibits 1 and 2, and that is all.

MR. PORTER: Is there objection to the admittance of tnese exhibits? They will be admitted. Does anyone else have a question of the witness?

MR. NUTTER: Yes, sir, I have.

MR. PORTER: Mr. Nutter.

CROSS EXAMINATION

By MR. NUTTER:

Q I didn't get your name. A Stewart.

Q This unit area is primarily based on the seismigraphic picture that was obtained in the area, is that not correct?

A Yes.

Q Do you feel that perhaps some acreage included in the enclosure could have been put in the unit whereas you have acreage not in the enclosure, is not enclosed it?

A I am not qualified to say.

MR. SELINGER: The acreage that is outside it that is included in the contour there is owned by Skelly Oil Company.

MR. NUTTER: I was going to ask the ownership.

MR. SELINGER: That is similarly Skelly and similarly State land.

Q All the land in the unit is State land?

A Yes, and it provides for expansion in the event it is warranted.

Q What percentage of the working unit owners have committed their working interest?

A All of them. There are two parties, Sinclair and Skelly.

Q Are there additional wells planned in the unit area in the event the first test well is a dry hole?

A I can't answer that. That would be based on geological information.

Q Does the unit agreement contain the segregation clause?

A Yes, sir.

Q One more question. Would Skelly Oil Company be willing to file a periodic statement of progress every six months?

MR. SELINGER: Yes, sir.

MR. NUTTER: That is all I have.

MR. PORTER: Anyone else have a question?

MR. WALKER: Who will the progress report go to?

MR. SELINGER: I think both the Oil Conservation Commission and the Land Commission.

MR. PORTER: Any other questions? The witness will be excused and we will take the case under advisement.

(Witness excused.)

C E R T I F I C A T E

STATE OF NEW MEXICO)
: SS
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 20th day of June, 1956.

Ada Dearnley
Notary Public - Court Reporter

My commission expires:
June 19, 1959.

June 15, 1956

In reply refer to:
Unit Division

Skelly Oil Co.
Tulsa 2, Oklahoma

Re: West Tatum Unit,
All: Sections 26 and 35-12S-35E,
Lea County, New Mexico

Attention: Mr. W. J. Stewart
Lease Records Division

Gentlemen:

We are enclosing two executed copies of the West Tatum Unit, which was approved by the Commissioner of Public Lands on June 15, 1956, this approval being subject to the New Mexico Oil Conservation Commission findings on their hearing, which was held June 14, 1956, under Case No. 1081.

Also enclosed is Official Receipt in the amount of $10.00, covering filing fee.

Very truly yours,

E. S. WALKER
Commissioner of Public Lands

MMR/m
enc: 3

cc: OCC-Santa Fe

SKELLY OIL COMPANY

TULSA 2, OKLAHOMA

PRODUCTION DEPARTMENT
J. S. FREEMAN, VICE PRESIDENT

May 1, 1956

Mr. W. M. Mankin
New Mexico Oil Conservation Commission
125 Mabry Hall
Santa Fe, New Mexico

Dear Sir:

As per your request we are attaching two additional copies of our application and Exhibit "A" on our West Tatum Unit, Lea County, New Mexico.

Also this is to confirm our wire of this date for this application to be heard on June 14.

Yours very truly,

George W. Selinger

George W. Selinger

NPM:zmr

UNIT OPERATING AGREEMENT
FOR THE
WEST TATUM UNIT AREA
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into this _____ day of _____, 1956, by and among SKELLY OIL COMPANY, a Delaware corporation with offices in Tulsa, Oklahoma, hereinafter referred to as either "Skelly" or "Unit Operator", and SINCLAIR OIL AND GAS COMPANY, a Maine corporation with offices in _____, hereinafter referred to as "Sinclair" or "Working Interest Owner";

WHEREAS, concurrently herewith the parties hereto have made and entered into a Unit Agreement for the development and operation of the West Tatum Unit Area, which said agreement is hereinafter referred to as "Unit Agreement", embracing the following described land in Lea County, New Mexico:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

Township 12 South, Range 35 East:

Section 26: All
Section 35: All

situated in Lea County, New Mexico, containing 1,280 acres, more or less;

and

WHEREAS, Skelly has been designated the Unit Operator under the terms of said Unit Agreement and is a Working

Interest Owner under said Unit Agreement and enters into this agreement in both capacities; and,

WHEREAS, the other parties hereto have committed certain oil and gas leasehold interests to said Unit Agreement which are subject to the terms and conditions thereof; and,

WHEREAS, Articles 6 and 9 of said Unit Agreement provide for the apportionment of all costs and expenses incurred in conducting the unit operations under the terms of said Unit Agreement and for the allocation of production of unitized substances among the Working Interest Owners, in accordance with a Unit Operating Agreement to be made and entered into by and between the Unit Operator and the Working Interest Owners having interests committed to said Unit Agreement.

NOW, THEREFORE, it is mutually agreed between the parties hereto as follows:

1. TITLES. Each of the parties hereto represents that it is the owner, respectively, of the oil and gas leasehold interests shown by the schedule attached hereto, made a part hereof and for purposes of identification marked Exhibit "B".

In case of loss or failure of title or of a dispute involving the interest of any of the parties hereto, the same shall be handled as provided in Article 20 of the Unit Agreement; provided, however, that each of the parties hereto shall be responsible for its proportionate part, on the basis hereinafter provided, of the cost of drilling and completing the initial test well required by the Unit Agreement, regardless of the status of title of the leasehold interests of any of the parties hereto. It is agreed that any loss or failure of title to any interest or lease shall be borne by the party or parties committing such interest or lease to the Unit Agreement and the participating interest in the unit area of the parties hereto shall be revised accordingly; provided, however, that there shall be no retroactive adjustment among the parties hereto of costs incurred and benefits received prior to the final determination of the loss of title. Unit Operator is hereby relieved of any and all liability for any failure or loss of title.

2. UNIT OPERATOR APPOINTED - DUTIES. Skelly is hereby appointed Unit Operator hereunder to serve until its successor is appointed in the manner provided in the Unit Agreement. Subject to the terms of the Unit Agreement and this agreement, Unit Operator shall have full management and control of the unit area and all leasehold interests committed to the Unit Agreement. Unit Operator will use reasonable diligence in all operations and work to be performed shall be conducted in a prudent manner.

3. INITIAL TEST WELL. By their joinder herein, the parties hereto and each of them agree that, within sixty (60) days after the effective date hereof, Unit Operator shall commence operations for the drilling of a test well for oil and gas at a location described as being in the approximate center of the Southeast Quarter of the Southwest Quarter (SE/4 SW/4) of Section 26, Township 12 South, Range 35 East, Lea County, New Mexico, and shall drill said well with due diligence to an approximate depth of 13,200 feet or to a depth sufficient, in the opinion of Unit Operator, to test the Devonian Formation, whichever is the lesser depth, or to such lesser depth as unitized substances shall be discovered in paying quantities or until, in the opinion of Unit Operator, it shall be determined that the further drilling of said well shall be unwarranted or impracticable.

4. COST OF INITIAL TEST WELL. It is understood and agreed by and among the parties hereto that the risk, cost and expense of drilling, completing and equipping said initial test well for production shall be borne and paid by the Working Interest Owners in the following proportions:

Skelly	68.75%
Sinclair	31.25%

All risk, cost and expense of operating said well shall be borne and paid by each of the parties hereto in the proportion set out opposite its name in Paragraph 5 below.

5. PARTICIPATING INTEREST OF THE PARTIES. For the purpose of this agreement and as between the parties hereto, the royalty interest is and shall be treated as one-eighth (1/8) and the working interest shall be treated as seven-eighths (7/8). All of the production from the unit area attributable to the working interest hereunder, and all equipment and material acquired pursuant hereto, shall be owned and shared by the parties hereto in the following proportions:

Skelly	68.75%
Sinclair	31.25%

and all costs, expenses and liabilities accruing or resulting from the development and operation of the unit area shall be borne by the parties hereto in the same proportion.

6. OVERRIDING ROYALTIES, PRODUCTION PAYMENTS, ETC. If any lease committed to the Unit Agreement is burdened with an overriding royalty, payment out of production or other charge in addition to the usual one-eighth (1/8) royalty, the owner of each such lease shall bear and assume the same out of the production allocated to it herein.

7. ADDITIONAL DRILLING. The parties hereto shall mutually agree upon the drilling of additional wells, their location, depth, deepening, plugging back, reconditioning and abandonment, and upon any of these operations applicable to any wells which may have been previously drilled hereunder. Unit Operator shall secure the written approval of Working Interest Owners before incurring any item of expense in excess of Five Thousand Dollars ($5,000.00) in connection with the operation of the unit area, except in connection with the drilling of any authorized well. Unit Operator shall upon request furnish Working Interest Owners with a copy of Unit Operator's authority for expenditures for any project costing in excess of Two Thousand Five Hundred Dollars ($2,500.00). The consent and approval of the drilling of any well shall include all expenditures regardless of amount for the drilling, testing, completing and equipping of same, including all necessary lines, separators and lease tankage.

8. NONCONSENT OPERATIONS. If at any time the parties cannot mutually agree upon the drilling of a particular well or the deepening, plugging back or reworking of any noncommercial well previously drilled hereunder, the party or parties desiring to conduct such operations shall give the other parties written notice thereof, specifying the location, proposed depth, and estimated cost. The parties receiving such notice shall have fifteen (15) days after receipt thereof within which to notify the party or parties desiring to conduct such operations whether or not such parties shall elect to participate in the cost thereof.

The failure of any party to give such notice within said period of fifteen (15) days shall be construed that such party does not elect to participate in the cost of the proposed drilling operations. If such parties shall elect not to participate in the cost of the proposed drilling operations, then within sixty (60) days after the expiration of said period of fifteen (15) days the party or parties desiring to conduct such operations, in order to be entitled to the benefits under this paragraph, shall authorize Unit Operator to commence the same for the account of such party or parties and thereafter prosecute the same with due diligence until said operations are completed. Any well drilled under the provisions of this paragraph shall conform to the then existing well spacing program. Any drilling operations under the provisions of this paragraph shall be conducted at the sole cost, risk and expense of the party or parties electing to conduct such operations. If such operations when completed upon a particular well should result in commercial production, the participating party or parties shall be entitled to receive all the proceeds from the sale of each nonparticipating party's net share of the working interest production from such well until said participating party or parties shall have received from the proceeds of the sale of each nonparticipating party's net share of the production an amount equal to one and one-half times what each nonparticipating party's share of the cost of such operations (including equipment acquired or installed in such operations) would have been had each such party participated, and 100% of each such nonparticipating party's share of the cost of

the operation of said well during the time such reimbursement is being made. Upon reimbursement to participating party or parties of the share of the cost of each nonparticipating party, each such nonparticipating party shall be entitled to receive its proportionate share of such production as if such operations upon said well had been conducted by mutual agreement of all parties, and upon full reimbursement of such cost, such well shall be operated by Unit Operator for the joint account of all parties hereto, the same as any other well drilled upon the unit area in accordance with the provisions hereof. In the event the participating party or parties fail to obtain from each nonparticipating party's share of such production a sufficient amount to repay such party's share of the cost of such drilling operations, plus such party's share of the cost of operating any such well, as set forth above, the participating party or parties shall have and own all such material, equipment and supplies placed or installed by it or them in or on the unit area in connection with the operations conducted under the provisions of this paragraph; provided that if such material, equipment and supplies have a salvage value in excess of such remaining reimbursement figure hereinabove provided, such excess shall be owned by the parties hereto in proportion to their then participating interest in the unit area. If the drilling of any such well should result in a dry hole or noncommercial production, Unit Operator shall plug and abandon the same at participating party or parties' sole cost and expense. The participating party or parties shall hold the nonparticipating party or parties free and clear of all cost, expense and liability in connection with the drilling of any such well.

9. ACCOUNTING PROCEDURE AND COST OF OPERATION: All expenses and charges of every kind and character arising from or growing out of operations hereunder shall be paid by the Unit Operator and charged to the parties hereto in proportion to their respective interests hereunder. Except as herein otherwise provided, all costs, income, charges and credits for materials and other items in connection with all operations under said Unit Agreement and accounting with respect thereto shall be in accordance with the "Accounting Procedure" attached hereto and made a part hereof and marked Exhibit "D". The term "Non-Operators" as used in said Exhibit "D" shall be deemed to refer to the Working Interest Owners herein.

10. LIEN OF UNIT OPERATOR. Unit Operator shall have a lien on the interest or interests of each of the other parties hereto that are subjected to this agreement, the oil and gas produced therefrom, the proceeds thereof, and such party's interest in the material and equipment thereon and therein, to secure Unit Operator in the payment of any sum due to Unit Operator hereunder from each such party. The lien herein provided for shall not extend to any royalty interests in or under the premises subject hereto or the production therefrom. And it is agreed that in event any amount due and owing to Unit Operator by any other party hereto is not paid as herein elsewhere provided within fifteen (15) days from the due date thereof, Unit Operator may serve a written order on the purchaser or purchasers of such other party's share of such oil and gas, and the service of such written order shall authorize and require such purchaser or purchasers to pay to Unit Operator the proceeds

thereafter becoming due and owing for such share until Unit Operator shall have been fully reimbursed to date for and on account of such other party's delinquent part of such amounts so due and owing under this agreement, together with interest thereon at the rate of six (6%) percent per annum, but it is agreed that this remedy shall not be exclusive; provided, however, that all parties hereto shall have the right to sell and dispose of their respective interests in the oil and gas produced from the premises subject hereto free and clear of such lien and the purchaser or purchasers thereof need not take notice of said lien until default in payment and service of such written order as above provided, in which events each party hereto agrees that at any time when it may be in arrears in payments hereunder, but only in such event, it will execute upon request, such additional instrument as may be necessary or desired to further evidence such lien and to provide for the prompt discharge thereof.

11. LEASE RENTALS. Each Working Interest Owner shall pay any and all rentals which become due and payable under any oil and gas lease of such Working Interest Owner committed to said Unit Agreement and shall, at least thirty (30) days prior to the time any such rental becomes due and payable, furnish to Unit Operator satisfactory evidence that said rental has been paid. The burden of paying such rental shall fall entirely upon the Working Interest Owner committing the oil and gas lease to the Unit Agreement and Unit Operator is hereby relieved of any and all liability for any loss of title resulting from the failure to pay any rental due under the terms of any such oil and gas lease.

12. DRILLING CONTRACTS. All wells drilled on the premises shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Unit Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but in such event the charge therefor shall not exceed the prevailing rate in the field, and such work shall be performed by Unit Operator under the same terms and conditions as shall be customary and usual in the field in the contracts of independent contractors who are doing work of a similar nature.

13. ABANDONMENT OF WELLS. Except as provided in numerical Paragraph 8 hereof, no well which is producing or has produced shall be abandoned without the mutual consent of the parties hereto; provided, however, if the parties are unable to agree as to the abandonment of any well, then the party or parties not desiring to abandon the well shall tender to the party or parties desiring to abandon same such abandoning party's proportionate share of the salvage value of the material and equipment in and on said well, such value to be determined in accordance with the attached Exhibit "D" -- Accounting Procedure. Upon receipt of said sum, the party or parties desiring to abandon such well shall, without express or implied warranty of title, assign to the party or parties tendering said sum the

abandoning party's or parties' rights in all working interest production which may be produced from said well from the formation or formations for which abandonment is contemplated, together with all material and equipment used in or on said well. If there is more than one nonabandoning party such assignment shall run in favor of the nonabandoning parties in proportion to their then participating interest in the unit area. Upon the delivery of said assignment, the assigning party or parties shall be relieved from all obligations thereafter (but not theretofore) accruing hereunder with respect to such well.

14. TRANSFER OF INTERESTS. In the event any party desires to sell or otherwise dispose of all or any part of its leasehold interest committed to said Unit Agreement, the other parties hereto shall have a preferential right to purchase or acquire the same. In such event, the selling or disposing party shall promptly communicate to the other parties hereto the offer received by it from a prospective transferee ready, willing and able to purchase or acquire the same, together with the name and address of such prospective transferee, and said parties shall thereupon have an option for a period of ten (10) days after the receipt of said notice to purchase or acquire such undivided interest under the same or substantially the same terms offered by such prospective transferee; provided, further, that the limitations of this paragraph shall not apply where any party hereto desires to mortgage its interest or to dispose of its interest by merger, reorganization, consolidation, sale or transfer of all its assets or a sale or transfer of its interest hereunder to a subsidiary or parent

company, or to any company in which such party hereto owns a majority of the stock, or sale or other disposition by an individual to a member of his immediate family. Any interests so acquired by more than one party hereto shall be shared by the parties purchasing the same upon the basis of their then participating interest in the unit area. The sale or other disposition of any interest subjected hereto shall be made expressly subject to this agreement and the Unit Agreement, and in the event of a sale or other disposition which is not made expressly subject to this agreement and the Unit Agreement, the selling or disposing party shall continue to be primarily liable and agrees to pay any costs or expenses attributable to the interest so sold or disposed of should the transferee of such interest fail or refuse to make such payment when due.

15. LIABILITY OF PARTIES. The liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for its obligations as herein set out and shall be liable only for its proportionate share of the cost of developing and operating the unit area. It is expressly agreed that it is not the purpose or intention of this agreement to create, nor shall the same be construed as creating, any mining partnership, commercial partnership or other partnership relations, nor shall the operations of the parties hereunder be construed or considered as a joint venture.

16. EMPLOYEES. The number of employees, the selection thereof, and hours of labor and the compensation for services to be paid them, shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

17. RIGHT OF PARTIES TO INSPECT PROPERTY AND RECORDS. The following specific rights, privileges and obligations of the parties hereto are hereby expressly provided, but not by way of limitation or exclusion of any other rights, privileges and obligations of the respective parties:

(a) Any party hereto shall have access to the entire unit area at all reasonable times to inspect and observe operations of every kind and character upon the property.

(b) Any party hereto shall have access, at all reasonable times, to any and all information pertaining to wells drilled, production secured and marketed, and to the books, records and vouchers relating to the operation of the unit area.

(c) Unit Operator shall, upon request, furnish the other parties hereto with daily drilling reports, true and complete copies of well logs, tank tables, daily gauge and run tickets, and reports of stock on hand at the first of each month, and shall also, upon request, make available samples and cuttings from any and all wells drilled on the unit area.

18. SURPLUS MATERIAL. Surplus material and equipment from the unit area, which in the judgment of Unit Operator is not necessary for the development and operation thereof, may be sold by Unit Operator to the other parties hereto or to others for the benefit of the joint account, or may be divided in kind between the parties hereto; provided that any party furnishing such material or equipment in kind shall have the prior right to take back such material or equipment in kind. Proper charges and credits shall be made by Unit Operator as provided in the Accounting Procedure, marked Exhibit "D", attached hereto.

19. RIGHT TO TAKE PRODUCTION IN KIND. Each of the parties hereto shall take in kind or separately dispose of its proportionate share of the production from the unit area, exclusive of production which may be used in development and producing operations on said unit area and in preparing and treating oil for marketing purposes and production unavoidably lost, and shall pay or deliver or cause to be paid or delivered all applicable royalties thereon and each party shall execute any and all contracts of sale pertaining to its interest in such production. Any extra expenditures incurred by the taking in kind or separate disposition by any party hereto of its proportionate share of the production shall be borne by such party. In the event any party hereto shall fail or refuse to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the production from said unit area, Unit Operator shall have the right for the time being and subject to revocation at will by the other party owning same, to either purchase or to market such production at not less than the posted market price in the area for production of like grade, gravity and quality, but in no event less than the price which Unit Operator receives for its own portion of such production determined at the mouth of the well or wells; PROVIDED that all contracts of sale by Unit Operator of any Working Interest Owner's production 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. Nothing herein contained shall ever be construed, however, as requiring Unit Operator to purchase

or supply a market for the production of Working Interest Owners. Subject to provision of numerical Paragraph 10, each party hereto shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of production, saved and sold from said premises.

20. INSURANCE. Unit Operator shall carry such Workmen's Compensation and Employers' Liability Insurance as may be required by the laws of the State of New Mexico, provided that Unit Operator may be a self-insurer as to either or both of such risks, if permissable, under the laws of said state. No other insurance shall be carried by Unit Operator for the benefit of the parties hereto except by mutual consent of the parties.

21. SURRENDER OR TERMINATION OF INTERESTS. No lease committed to the Unit Agreement shall be surrendered in whole or in part unless all of the parties hereto mutually consent thereto. Any Working Interest Owner shall have the right at any time while not in default of any of the provisions hereof or indebted to the joint account to be relieved of all further obligations, except the obligation to pay such party's proportionate part of the cost of any well then drilling under this Agreement by assigning, subject to the approval of the Commissioner of Public Lands of the State of New Mexico, to the other parties hereto, in proportion to the interest then severally held by them in the unit area, all of the committed working interest in the unit area of the Working Interest Owner desiring to be relieved of such further obligations. Such interest shall be assigned free and clear of all liens and encumbrances, except those

existing on the effective date of this agreement. In such event the Unit Operator shall pay to the Working Interest Owner desiring to be relieved of such further obligations, at fair secondhand value, less the cost of salvaging the same, all such party's proportionate interest in all casing, material, equipment, fixtures, and personal property belonging to the joint account.

22. REGULATIONS. This agreement and the respective rights and obligations of the parties hereunder shall be subject to all valid and applicable state and federal laws, rules, regulations and orders, and in the event this agreement or any provision thereof is, or the operations contemplated thereby are, found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly, and as so modified, to continue in full force and effect.

Unit Operator shall prepare and furnish to any such duly constituted authority, through its proper agency or department, any and all reports, statements and information as may be requested when such reports are required to be furnished by Unit Operator.

23. FORCE MAJEURE. Obligations other than the obligation to make payments of amounts due hereunder shall be suspended while the parties hereto are prevented from complying therewith by acts of God, riots, war, acts of federal or state agencies, inability to secure materials, strikes, lockouts, or other matters beyond their control, whether similar of dissimilar; provided, that the settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty.

24. CONTRIBUTIONS FROM OTHERS. In the event the parties hereto or any one of them receive a contribution toward the drilling of any well located on any lands within the unit area, said contribution shall be owned by the parties hereto in the proportion of their participation in the cost of said well.

25. NOTICES. All notices that are required or authorized to be given hereunder except as otherwise specifically provided herein shall be given by United States mail or Western Union telegram, postage or charges prepaid, and addressed to the party or parties to whom such notice is given at their respective addresses set forth under the signatures hereto or to such other address as any such party may have furnished in writing to the party sending the notice. The originating notice to be given under any provision hereof shall be deemed given when received by the party to whom such notice is directed and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent notice shall be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, with postage or charges prepaid.

26. FURTHER INSTRUMENTS. Each party hereto agrees that it will execute such contracts, surrenders, assignments, or other instruments necessary or required to carry out and make effectual all or any of the provisions of this agreement.

In the event that any of the leases which are now a part of the unit covered hereby, or which may hereafter

become a part of such unit, cover lands owned by the State of New Mexico and it becomes necessary to apply the provisions of numerical Paragraphs 13, 14 or 21 of this Agreement and in the application of the provisions of such paragraph, or paragraphs, any law, rule, regulation or order of the State of New Mexico or any governmental agency having jurisdiction hereof will be violated as to a matter of substance as distinguished from a matter of form, the parties hereto agree that such lands or leases shall be exempt from the application of such Paragraphs 13, 14 or 21, and separate agreements entered into at such time. Any assignment of a lease covering lands owned by the State of New Mexico which, under the provisions of Paragraphs 13, 14 or 21, would otherwise run to two or more assignors, shall be made to the Unit Operator alone, who shall hold the interest conveyed thereby for the benefit of those entitled thereto under the provisions of the applicable paragraph or paragraphs.

27. PARTNERSHIP EXCLUSION. Each party hereto hereby elects that he or it and the operations covered by this agreement be excluded from the application of Sub-chapter K of Chapter I of Subtitle A of the Internal Revenue Code of 1954, or such portion or portions thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom, insofar as all or any portion of said Sub-chapter K may be applicable to the parties hereto in respect of the operations covered

by this agreement. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such additional or further evidence of said election as may be required by regulations issued under said Sub-chapter K, or, should said regulations require each party to execute such further evidence, each party agrees to execute such evidence, or to join in the execution thereof.

28. TAXES. Unit Operator shall render, for ad valorem tax purposes, the premises covered hereby, together with all tangible property, however classified, appurtenant thereto if, and to the extent that Unit Operator deems such property then to be subject to ad valorem taxation and shall pay, for the benefit of the parties hereto, such ad valorem taxes which Unit Operator deems to be assessed validly against such property. When paid, such ad valorem taxes shall be charged to the joint account as provided in the attached "Exhibit D".

29. UNIT AGREEMENT. The parties hereto having entered into that certain agreement, captioned "Unit Agreement For The Development and Operation of the West Tatum Unit Area, Lea County, New Mexico" (hereinafter referred to as the "Unit Agreement"), of even date herewith, all of the terms, provisions and conditions of said agreement are incorporated herein by reference and made a part hereof with the same effect as if set out in full herein.

30. HEADINGS FOR CONVENIENCE. The headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

Agreement, and the Unit Operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

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

IN WITNESS WHEREOF, this agreement is executed as of the day and year first above written.

SKELLY OIL COMPANY

ATTEST:

_____
Assistant Secretary

By _____
Vice-President

Skelly Building
Tulsa, Oklahoma

SINCLAIR OIL & GAS COMPANY

ATTEST:

_____
Secretary

By _____
President

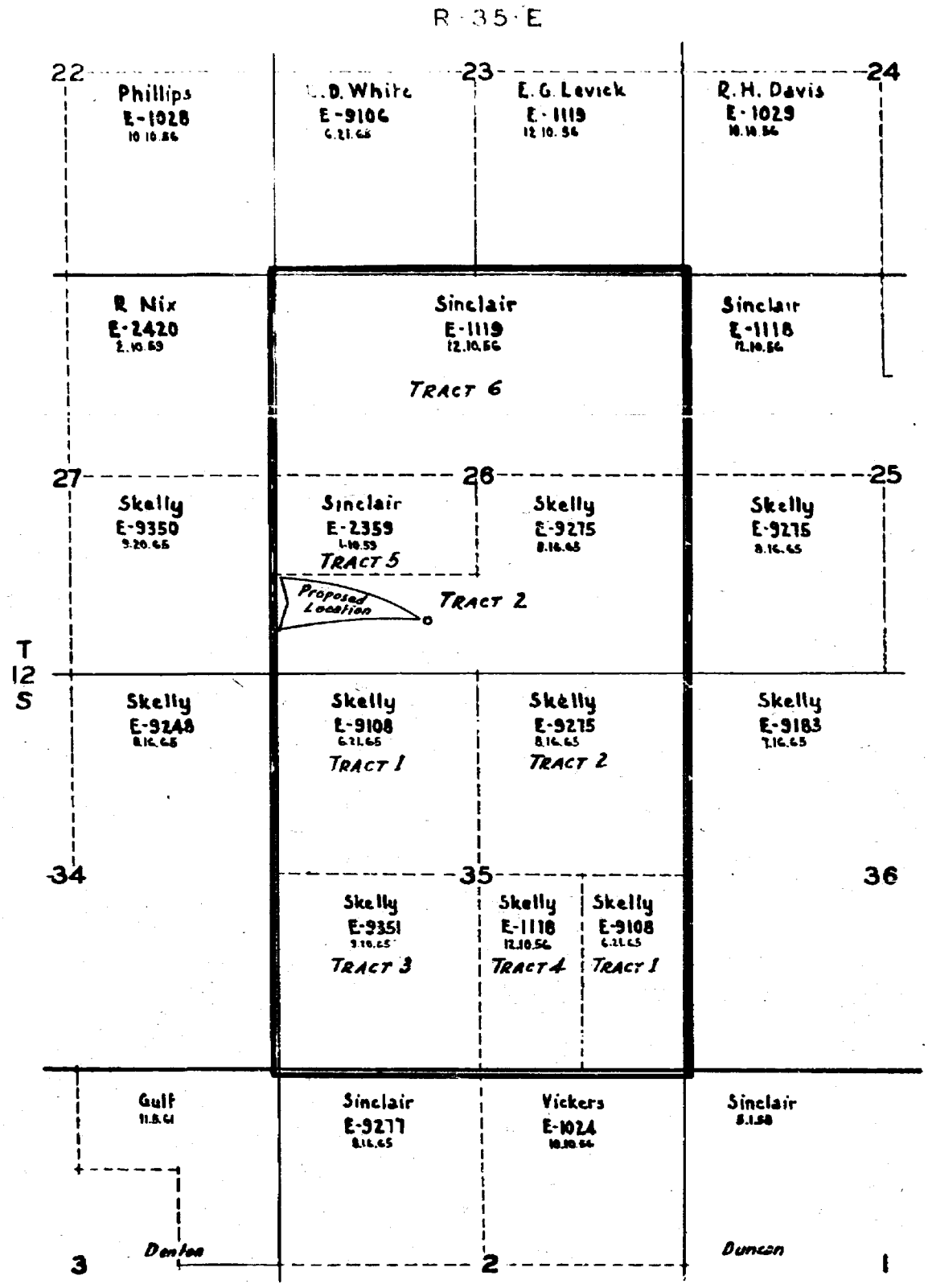


EXHIBIT "A"

SKELLY OIL COMPANY-OPERATOR

WEST TATUM UNIT

T-12-S R-35-E

LEA COUNTY, NEW MEXICO

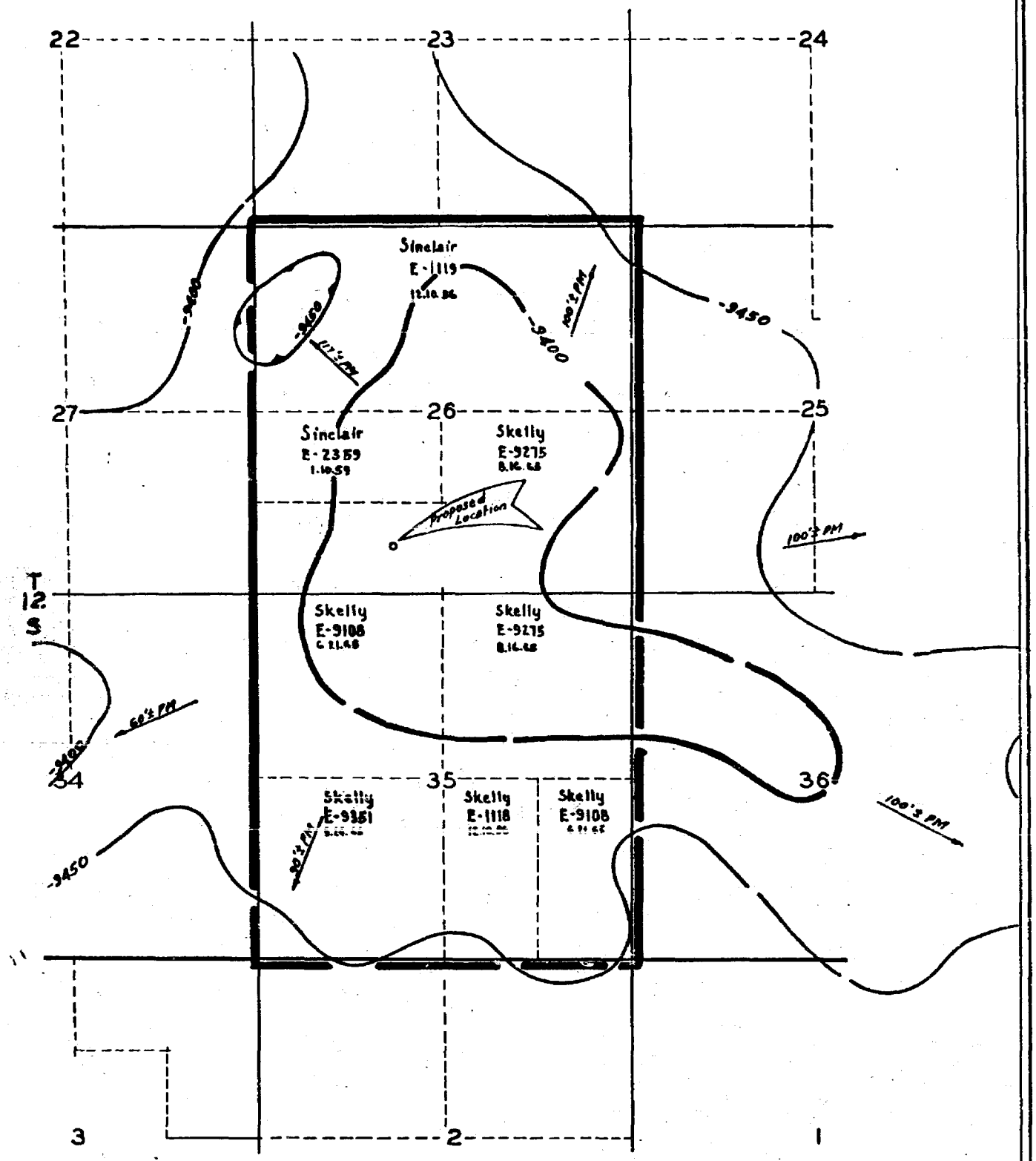
SCALE: 1" = 2000'

EXHIBIT "B"
WEST TATUM UNIT
SKELLY OIL COMPANY - Operator
SCHEDULE OF PERCENTAGE & OWNERSHIP OF OIL & GAS
INTEREST IN ALL LANDS

Tract No. & Description	No. of Acres	New Mexico State Lease & Date	(*)Landowner & Percentage of Royalty	Record Owner of Lease	Over-riding Royalty	Working Interest Owner & Percentage of Interest	
Tract No.1 W½ & E2 SE¼ Sec.35 T12S R35E	240	E-9108 (6-21-55)	State of New Mexico 12½%	Skelly Oil Company	None	Skelly Oil Company	87.50%
Tract No. 2 S2 SW¼, SE¼ Sec. 26; NE¼ Sec. 35 T12S R35E	400	E-9275 (8-16-55)	State of New Mexico 12½%	Skelly Oil Company	None	Skelly Oil Company	87.50%
Tract No.3 SW¼ Sec.35 T12S R35E	160	E-9351 (9-20-55)	State of New Mexico 12½%	Skelly Oil Company	None	Skelly Oil Company	87.50%
Tract No.4 W2 SE¼ Sec.35 T12S R35E	80	E-1118 (12-10-46)	State of New Mexico 12½%	Skelly Oil Company	None	Skelly Oil Company	87.50%
Tract No. 5 W2 SW¼ Sec.26 T12S R35E	80	E-2369 (1-10-49)	State of New Mexico 12½%	Sinclair Oil & Gas Company	None	Sinclair Oil & Gas Company	87.50%
Tract No.6 W2 Sec. 26 T12S R35E	320	E-1119 (12-10-46)	State of New Mexico 12½%	Sinclair Oil & Gas Company	None	Sinclair Oil & Gas Company	87.50%
	1280						

(*) - All New Mexico State Lands

R-35-E



STRUCTURE MAP
SEISMIC INTERPRETATION
NEAR DEVONIAN HORIZON

EXHIBIT "C"

SKELLY OIL COMPANY-OPERATOR

WEST TATUM UNIT

T-12-S R-35-E

LEA COUNTY, NEW MEXICO

SCALE: 1"=2000'

PASO-T-1955-2

EXHIBIT "D"

Attached to and made a part of Operating Agreement between Skelly Oil Company and Sinclair Oil & Gas Company covering all Sections 26 & 35, 12S-35E, Lea County, New Mexico

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. Statements and Billings

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Subparagraph A below:

A. Statement in detail of all charges and credits to the joint account.

B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.

C. Statements as follows:

(1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;

(2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges and credits.

3. Payments by Non-Operator

Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator 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 Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

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 accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. 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.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. Rentals and Royalties

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

3. Employee Benefits

Operator's current cost 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, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. Material

Material, equipment, and supplies purchased or furnished by Operator for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or 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 or railway receiving point where such material is available, except by special agreement with Non-Operator.

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 from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

A. Outside Services:
The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account: but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. District and Camp Expense (Field Supervision and Camp Expense)

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's ..... office located at or near ..... (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on [redacted] a well basis, one drilling well being equivalent to four producing wells.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
13,200'	$200.00	$50.00	$35.00	$25.00

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. In connection with overhead charges, the status of wells shall be as follows:

(1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.

(2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.

(3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

(4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.

(5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.

(6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.

(7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.

(8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.

C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.

D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.

E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

13. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

None

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator after deduction of all discounts actually received.

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")

(1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on carload basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.

(2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.

(3) Cash discount shall not be allowed.

B. Used Material (Condition "B" and "C")

(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.

(2) Material which cannot be classified as Condition "B" but which,

(a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning,

shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.

(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

(4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III 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 materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

5. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates should generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.

C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.

D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.

E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.

F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

2. Division in Kind

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. New Price Defined

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

2. New Material

New material (Condition "A"), being new material procured for the joint account but never used thereon, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning:

A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or

B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price.

4. Other Used Material

Used material (Condition "C"), at fifty per cent (50%) of current new price, being used material which:

A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

B. Is serviceable for original function but substantially not suitable for reconditioning.

5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

6. Junk

Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.

7. Temporarily Used Material

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

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-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property; and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

CASE _____

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
WEST TATUM UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the _____ day of _____, 1956, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chapter 162, Laws of 1951) 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 agreements for the unit operation and development of part of or all of any oil or gas pool, field or area; and,

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by an Act of the Legislature (Chap. 72, Laws 1935)

to approve this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto own the entire working interest in the West Tatum Unit Area covering the land hereinafter described and, therefore, have effective control of operations therein; and,

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

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

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the West Tatum Unit Area:

NEW MEXICO PRINCIPAL MERIDIAN,
NEW MEXICO

Township 12 South, Range 35 East:

Section 26: All
Section 35: All

situated in Lea County, New Mexico,
containing 1,280 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land 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. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner."

The above described unit area shall 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) Unit Operator, on its own motion or on demand of the Commissioner, shall prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof.

(b) Said notice shall be delivered to the Commissioner and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that thirty (30) days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Commissioner evidence of mailing of the notice of expansion and a copy of any objections thereto which have been filed with the Unit Operator.

(d) After due consideration of all pertinent information, the expansion shall, upon approval by the Commissioner, become effective as of the date prescribed in the notice thereof, provided, however, if more than 25% on an acreage basis object to such expansion, the same shall not be approved; provided, however, that should the interest of any objecting working interest owner equal or exceed 25% on an acreage basis, then and in that event in order to make such objection effective hereunder one additional working interest owner must join in such objection.

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

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

3. UNIT OPERATOR: Skelly Oil Company, a Delaware corporation, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development and production of unitized substances as herein provided. Whenever

reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

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

The resignation or removal of the Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no

such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor Unit Operator; provided that, if a majority but less than 65 per cent of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than 65 per cent of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The Unit Operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement by and between the Unit Operator and the other owners of such

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

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR:

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

8. DRILLING TO DISCOVERY. Within sixty (60) days after the effective date hereof, the Unit Operator shall commence operations upon an adequate test well for oil and gas at a location described as being in the approximate center of the Southeast Quarter of the Southwest Quarter (SE/4 SW/4) of Section 26, Township 12 South, Range 35 East, Lea County, New Mexico, and shall drill said well with due diligence to an approximate depth of 13,200 feet or to a depth sufficient, in the opinion of Unit Operator, to test the Devonian Formation, whichever is the lesser depth, or to such lesser depth as unitized substances shall be discovered in paying quantities or until, in the opinion of Unit Operator, it shall be determined that the further drilling of said well shall be unwarranted or impracticable.

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

9. PARTICIPATION AND ALLOCATION OF PRODUCTION AFTER DISCOVERY. All unitized substances produced from the unit area, except any part thereof used within the unit area for production or development purposes or unavoidably lost,

shall be deemed produced equally on an acreage basis from the several tracts of unitized land and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of production as the number of acres of such tract bears to the total number of acres of unitized land within the unit area, except that allocation of production hereunder for purposes other than settlement of royalty, overriding royalty or payment out of production obligations of the respective working interest owners shall be on the basis prescribed in the Unit Operating Agreement, whether in conformity with the basis of allocation herein set forth or otherwise.

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

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

All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of

the unitized substances allocated to the respective leases, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

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

If any lease committed hereto is burdened with an overriding royalty, payment out of production, or other charge, in addition to the usual one-eighth (1/8) royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to it under the terms of the Unit Operating Agreement.

11. STATE LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of State of New Mexico lands committed to this agreement, shall, upon approval hereof by the Commissioner,

be and the same are hereby expressly modified and amended insofar as they apply to such lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the length of the secondary term of such leases on and covering such lands within said area will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the lessee shall, without further action of the Commissioner or the lessee, be effective to conform the provisions and extend the term of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each such lease committed to this agreement insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein so long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws shall continue in full force and effect thereafter. The commencement, completion, operation or production of a well on any part of the unit area shall be respectively construed and considered as the commencement or completion or operation or production of a well within the terms and provisions of each of the oil and gas leases to the same extent as though such commencement, completion, operation or production was carried on, conducted and/or obtained from any such leased tract.

Any lease embracing lands of the State of New Mexico having only a portion of such lands committed hereto shall be segregated as to that portion committed and that portion 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, any such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if unitized substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of unitized substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as unitized substances in paying quantities are being produced from any portion of said lands.

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

13. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized lands by wells on land not subject to this agreement.

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

15. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and shall terminate in two years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid. This

agreement may be terminated at any time by not less than 65 per cent on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner. Likewise, as provided in Article 8 hereof, the Commissioner may, after reasonable notice to the Unit Operator and each working interest owner, lessee and lessor at their last known addresses, declare this Unit Agreement terminated.

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

17. APPEARANCES: Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at its own expense to appear and to participate in any such proceeding.

18. NOTICES: All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or

to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

19. UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, war, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, 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.

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

the State of New Mexico shall be withheld, but such funds shall be deposited with the Commissioner of Public Lands 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.

21. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development and operation. After operations are commenced hereunder, the right of subsequent joinder by a working interest owner shall be subject to all of the requirements of any applicable operating agreement between the working interest owners relative to the allocation of production and the costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the filing with the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties before participating in any benefits hereunder shall be required to assume and pay to Unit Operator their proportionate share of the unit expense incurred prior to such party's or parties' joinder in the Unit

31. EFFECTIVE DATE AND TERM. This Unit Operating Agreement shall become effective as of the effective date of the Unit Agreement for the development and operation of the West Tatum Unit Area and shall remain in full force and effect during the life of such Unit Agreement, and the provisions hereof shall be considered as covenants running with the ownership of the respective oil and gas leases committed by the parties hereto to said Unit Agreement, and shall be binding upon the heirs, personal representatives, successors and assigns of the parties hereto.

32. COUNTERPARTS. This agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document or this agreement may be ratified with like force and effect by a separate instrument in writing specifically referring hereto.

IN WITNESS WHEREOF, this agreement is executed as of the day and year first above written.

SKELLY OIL COMPANY

ATTEST:

_____
Assistant Secretary

By_____
Vice-President

Skelly Building
Tulsa, Oklahoma

SINCLAIR OIL & GAS COMPANY

ATTEST:

_____
Secretary

By_____
President

R-35-E

T 12 S

22	23		24
Phillips E-1028 10.10.66	E.B. White E-9106 6.21.65	E.G. Levick E-1119 12.10.56	R.H. Davis E-1029 10.16.56
R Nix E-2420 2.10.69	Sinclair E-1119 12.10.56 TRACT 6		Sinclair E-1118 12.10.56
27	26		25
Skelly E-9350 9.20.65	Sinclair E-2359 1-10.59 TRACT 5	Skelly E-9275 8.16.65	Skelly E-9275 8.16.65
	Proposed Location TRACT 2		
Skelly E-9248 8.16.65	Skelly E-9108 6.21.65 TRACT 1	Skelly E-9275 8.16.65 TRACT 2	Skelly E-9183 7.16.65
34	35		36
	Skelly E-9351 9.20.65 TRACT 3	Skelly E-1118 12.10.56 TRACT 4	Skelly E-9108 6.21.65 TRACT 1
Gulf 11.8.64	Sinclair E-9277 8.16.65	Vickers E-1024 10.10.64	Sinclair 5.1.58
3	Denton 2		Duncan 1

EXHIBIT "A"
SKELLY OIL COMPANY-OPERATOR

WEST TATUM UNIT

T-12-S R-35-E
LEA COUNTY, NEW MEXICO

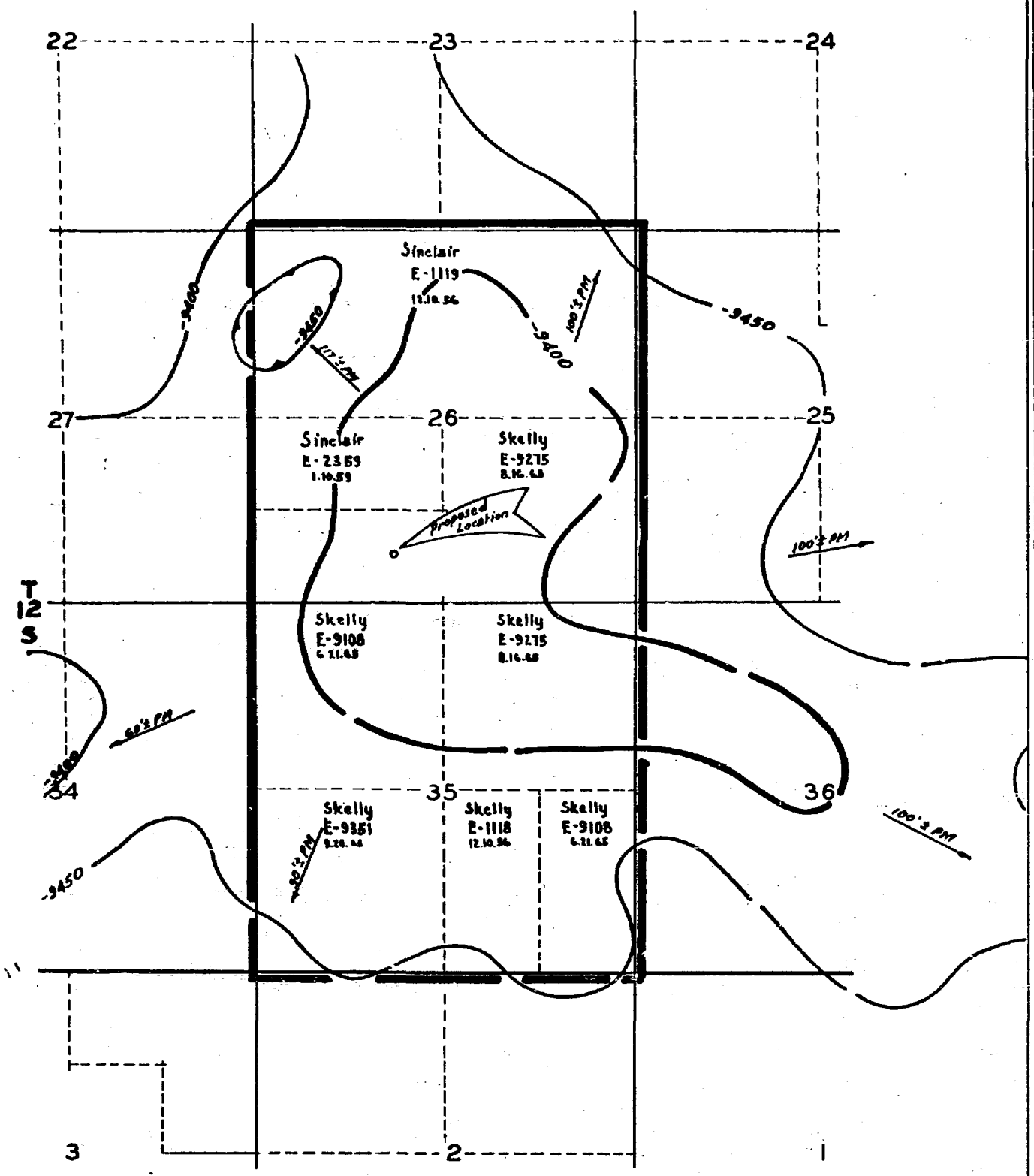
SCALE: 1" = 2000'

EXHIBIT "B"
WEST TATUM UNIT
SKELLY OIL COMPANY - Operator
SCHEDULE OF PERCENTAGE & OWNERSHIP OF OIL & GAS
INTEREST IN ALL LANDS

Tract No. & Description	No. of Acres	New Mexico State Lease & Date	(*)Landowner & Percentage of Royalty	Record Owner of Lease	Over-riding Royalty	Working Interest Owner & Percentage of Interest	
Tract No.1 NW4 & E2 SE4 Sec.35 T12S R35E	240	E-9108 (6-21-55)	State of New Mexico 12½%	Skelly Oil Company	None	Skelly Oil Company	87.5
Tract No. 2 S2 SW4, SE4 Sec. 26; NE4 Sec. 35 T12S R35E	400	E-9275 (8-16-55)	State of New Mexico 12½%	Skelly Oil Company	None	Skelly Oil Company	87.5
Tract No.3 SW4 Sec.35 T12S R35E	160	E-9351 (9-20-55)	State of New Mexico 12½%	Skelly Oil Company	None	Skelly Oil Company	87.5
Tract No.4 W2 SE4 Sec.35 T12S R35E	80	E-1118 (12-10-46)	State of New Mexico 12½%	Skelly Oil Company	None	Skelly Oil Company	87.5
Tract No. 5 W2 SW4 Sec.26 T12S R35E	80	E-2369 (1-10-49)	State of New Mexico 12½%	Sinclair Oil & Gas Company	None	Sinclair Oil & Gas Company	87.50
Tract No.6 W2 Sec. 26 T12S R35E	320	E-1119 (12-10-46)	State of New Mexico 12½%	Sinclair Oil & Gas Company	None	Sinclair Oil & Gas Company	87.50
	1280						

(*) - All New Mexico State Lands

R-35-E



STRUCTURE MAP
SEISMIC INTERPRETATION
NEAR DEVONIAN HORIZON

EXHIBIT "C"

SKELLY OIL COMPANY-OPERATOR

WEST TATUM UNIT

T-12-S R-35-E

LEA COUNTY, NEW MEXICO

SCALE: 1"=2000'

CERTIFICATE OF APPROVAL
BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO,
OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION OF
THE WEST TATUM UNIT AREA
LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached agreement for the development and operation of the West Tatum Unit Area, Lea County, New Mexico, dated as of the _____ day of _____, 1956, in which Skelly Oil Company is designated as Unit Operator and which has been executed by all parties owning and holding oil and gas leases embracing lands within the unit area and upon examination of said agreement, the Commissioner finds:

(a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area;

(b) That under the operations proposed, the State will receive its fair share of the recoverable oil or gas in place under its land in the area affected;

(c) That the agreement is in other respects for the best interest of the State;

(d) That the agreement provides for the unit operation of the area, for the allocation of production, and the sharing of proceeds from a part of the area covered by the agreement on an acreage basis as specified in the agreement.

NOW, THEREFORE, by virtue of the authority conferred upon me by Chap. 88 of Laws of the State of New Mexico, 1943, as amended by Chap. 162 of the Laws of New Mexico, 1951, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said agreement, and all leases embracing lands in the State of New Mexico committed to said Unit Agreement shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said agreement. This approval is subject to all of the provisions of the aforesaid Chap. 88 of the Laws of the State of New Mexico, 1943, as amended by Chap. 162 of the Laws of the State of New Mexico, 1951.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this _____ day of _____, 1956.

_____
Commissioner of Public Lands of
the State of New Mexico

EXHIBIT "B"
WEST TATUM UNIT
SKELLY OIL COMPANY - Operator
SCHEDULE OF PERCENTAGE & OWNERSHIP OF OIL & GAS
INTEREST IN ALL LANDS

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