

CASE 3088: Application of PHILLIPS
for approval of the RANGER LAKE
UNIT AGREEMENT, Lea County, N.M.

CASE NO.

3088

Application,
TRANSCRIPTS,
SMALL Exhibits
ETC.

9-1-64

Unit Name RANGER LAKE UNIT (WATERFLOOD)
Operator PHILLIPS PETROLEUM COMPANY
County LEA

3088

DATE	OCC CASE NO. 3088	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. R-2751	9-1-64	2440.00	2440.00	-0-	-0-	Yes	so long as
Commissioner:	OCC: 7-29-64							
8-28-64								

UNIT AREA

TOWNSHIP 12 SOUTH, RANGE 34 EAST, NEW MEXICO PRINCIPAL MERIDIAN

Section 14: E/2SE/4
Section 23: ALL
Section 24: W/2NW/4
Section 25: NW/4
Section 26: ALL
Section 27: E/2, SE/4SW/4
Section 34: E/2
Section 35: NW/4

TERMINATED
2-9-73
CH: 4-1-73

9-1-64

Unit Name RANGER LAKE UNIT (WATERFLOOD)
 Operator PHILLIPS PETROLEUM COMPANY
 County LEA

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
1	E-1027-2	C.S.	14	12S	34E	E/2SE/4	4-6-64 4-1-64	80.00		JOSEPH I. O'NEIL GREAT WESTERN DRILLING COMPANY
* 2A	E-2793-1	C.S.	23	12S	34E	NW/4	3-2-64	160.00		PHILLIPS PET. CO.
	E-9718	C.S.	23	12S	34E	NE/4	3-2-64	160.00		PHILLIPS PET. CO.
	E-9718	C.S.	24	12S	34E	W/2NW/4	3-2-64	80.00		PHILLIPS PET. CO.
	E-906-1	C.S.	26	12S	34E	ALL	8-24-64	640.00		JOSEPH E. SEAGRAM & SONS
	E-1233-1	C.S.	25	12S	34E	N/2NW/4	3-2-64	80.00		PHILLIPS PET. CO.
	E-1233-4	C.S.	25	12S	34E	S/2NW/4	3-2-64	80.00		PHILLIPS PET. CO.
* 2B	E-1027-1	C.S.	23	12S	34E	S/2	3-2-64	320.00		PHILLIPS PET. CO.
5	E-2576	C.S.	27	12S	34E	NE/4	7-16-64	160.00		GETTY OIL COMPANY
6	E-2490	C.S.	27	12S	34E	SE/4,SE/4SW/4	8-25-64	200.00		HUMBLE OIL & REFINING COMPANY
8	E-8956	C.S.	34	12S	34E	E/2	5-28-64	320.00		PAN AMERICAN PET. CORPORATION
9	E-7554	C.S.	35	12S	34E	NW/4	3-23-64	160.00		AMERADA PET. CORP.

* Tracts 2A - 2B - PRODUCTION is to be ALLOCATED to the WEST RANGER UNIT

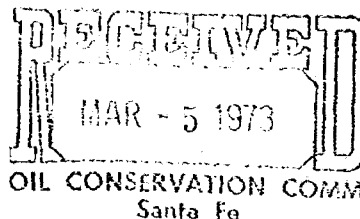


PHILLIPS PETROLEUM COMPANY

ODESSA, TEXAS 79760
PHILLIPS BUILDING, FOURTH & WASHINGTON

EXPLORATION & PRODUCTION DEPARTMENT

February 28, 1973



Reversion to Operation Under West Ranger
Unit Agreement Following Termination of
Ranger Lake Unit Agreement, Lea County,
New Mexico

File: W2-Ed-128-73

State of New Mexico (2)
Commissioner of Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87501

Attention: Mr. Ray D. Graham, Director
Oil and Gas Department

Gentlemen:

The West Ranger Unit Area comprising the following described lands was unitized by Agreement, dated March 15, 1956, approved by the Commissioner of Public Lands of the State of New Mexico by Certificate of Approval, dated May 2, 1956:

New Mexico Principal Meridian, New Mexico, T-12-S, R-34-E, Lea County, N.M.

Sections 23 and 26: All
Section 24: W/2 NW/4
Section 25: NW/4

These and other lands were subsequently included in the Ranger Lake Unit which was approved by the Commissioner of Public Lands of the State of New Mexico on August 28, 1964, and which became effective September 1, 1964.

By Certificate of Termination, which has been approved by the Commissioner of Public Lands of the State of New Mexico and the New Mexico Oil Conservation Commission, the Ranger Lake Unit Agreement will be terminated effective April 1, 1973. Article 22 of the Ranger Lake Unit Agreement provides, in part, that upon termination the parties thereto shall be governed by the terms and provisions of leases and contracts affecting the separate tracts. Accordingly, operation of those lands which comprise the above-described West Ranger Unit Area shall revert to the West Ranger Unit Agreement and Unit Operating Agreement effective April 1, 1973. Phillips Petroleum Company is operator of the West Ranger Unit.

Very truly yours,
PHILLIPS PETROLEUM COMPANY

F. F. Lovering, Manager
Southwestern District

JWMidva

cc: New Mexico Oil Conservation Commission
Attention: Mr. A. L. Porter, Jr.
Texas Pacific Oil Company
Attention: Mr. L. B. Jeffers

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

February 9, 1973

2088

Mr. G. W. Edwards
Phillips Petroleum Company
Phillips Building
Fourth and Washington
Odessa, Texas 79760

Re: Termination of Unit Agreement
Ranger Lake Unit, Lea County,
New Mexico.

Dear Mr. Edwards:

By your letter dated February 6, 1973, you state that as unit operator, you are in compliance with the terms set forth in Article 22 of the Ranger Lake Unit Agreement and request Commission approval of the Certificate of Termination. In accordance with said Article 22, the New Mexico Oil Conservation Commission hereby approves the Termination of the Ranger Lake Unit to become effective April 1, 1973.

Two approved copies of the Certificate of Termination are returned herewith.

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/JEK/og

cc: Commissioner of Public Lands
Santa Fe, New Mexico

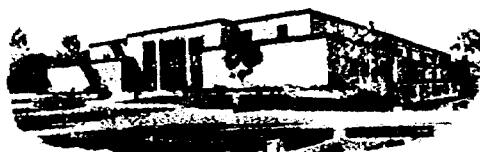
C
O
P
Y

State of New Mexico

TELEPHONE
505-827-2748



ALEX J. ARMJO
COMMISSIONER



Commissioner of Public Lands

February 9, 1973

P. O. BOX 1148
SANTA FE, NEW MEXICO

Phillips Petroleum Company
Phillips Building Forth & Washington
Odessa, Texas 79760

Re: Termination of Unit Agreement,
Ranger Lake Unit, Lea County,
New Mexico
File: W2-Rd-65-73

ATTENTION: Mr. G. W. Edwards

Gentlemen:

We are in receipt of your Termination Instruments for the Ranger Lake Unit, Lea County, New Mexico, as per Article 22 of the Unit Agreement. The Commissioner of Public Lands has this date given approval to your termination. The effective date to be as of April 1, 1973.

We are handing six (6) copies of the Certificate of Termination to the Oil Conservation Commission requesting them to forward two (2) copies to you. Two copies to be returned to the Commissioner of Public Lands and two copies must be retained by the Oil Conservation Commission.

Please advise this office the current producing status of wells, by tracts, showing wells to be returned to former operators for continued operations and wells to be plugged and abandoned upon approval of termination of the unit.

Very truly yours,

RAY D. GRAHAM, Director
Oil and Gas Department

AJA/RDG/s

cc:

OCC-Santa Fe, New Mexico ✓



PHILLIPS PETROLEUM COMPANY

ODESSA, TEXAS 79760
PHILLIPS BUILDING, FOURTH & WASHINGTON

EXPLORATION & PRODUCTION DEPARTMENT

February 6, 1973

RECEIVED

FEB 8 10 33 AM '73

STATE LAND
SANTA FE, N. M.

Termination of Unit Agreement,
Ranger Lake Unit, Lea County,
New Mexico

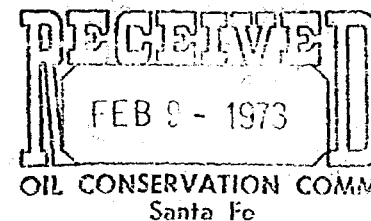
File: W2-Ed-65-73

State of New Mexico (2)
Commissioner of Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87501

Attention: Mr. Ray D. Graham, Director
Oil and Gas Department

New Mexico Oil Conservation Commission (2)
State Land Office Building
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.
Secretary-Director



Gentlemen:

The Oil Conservation Commission of the State of New Mexico, under date of July 29, 1964, issued its Order No. 2751 approving the Ranger Lake Unit Agreement.

The Commissioner of Public Lands of the State of New Mexico, under date of August 28, 1964, issued a Certificate of Approval of the Unit Agreement for development and operation of the Ranger Lake Unit Area, Lea County, New Mexico.

The Ranger Lake Unit Agreement became effective on September 1, 1964. Article 22 of the Unit Agreement provides that the term of the Agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as drilling, reworking, or other operations (including secondary recovery) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners of ninety percent (90%) unit participation whenever such Working Interest Owners determine that unit operations are no longer profitable, feasible, or in the interest of conservation, with the approval of the Commission and the Commissioner, and with notice of such approval given by Unit Operator to all parties thereto.

More than sufficient approval (99.7 percent of the working interest ownership) has been received to terminate the Unit Agreement and abandon unitized operations of the Ranger Lake Unit in accordance with Article 22 of the Unit Agreement.

To: Commissioner of Public Lands
Attn: Mr. Ray D. Graham
New Mexico Oil Conservation Commission
Attn: Mr. A. L. Porter, Jr.
File: W2-Ed-65-73
Date: February 6, 1973
Page: 2

Therefore, enclosed are six copies of the Certificate of Termination, Ranger Lake Unit, Lea County, New Mexico, which have been executed by Phillips Petroleum Company, as Unit Operator, certifying that unit operations are no longer profitable, feasible, or in the interest of conservation and that the Unit Agreement shall be terminated on April 1, 1973.

It is requested that this Certificate of Termination be executed by both the Commissioner of Public Lands and in behalf of the New Mexico Oil Conservation Commission, and that two executed copies be returned to me. Please contact me, or Mr. J. W. Maharg of this office, if additional information is desired.

Your early attention to this request will be appreciated.

Very truly yours,

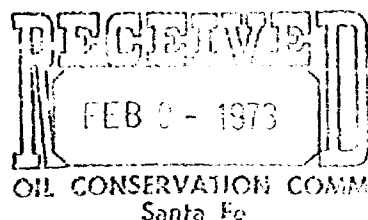
PHILLIPS PETROLEUM COMPANY



G. W. Edwards, Chairman
Working Interest Owners Committee

JWM:dva
Attachments

STATE OF NEW MEXICO
COUNTY OF LEA



RECEIVED
FEB 8 10 33 AM '73
STATE OF NEW MEXICO
SANTA FE, N. M.

CERTIFICATE OF TERMINATION

RANGER LAKE UNIT

LEA COUNTY, NEW MEXICO

WHEREAS, Phillips Petroleum Company, a Delaware Corporation, duly authorized to do business in the State of New Mexico, and with its principal office in Bartlesville, Oklahoma, has been duly designated as Unit Operator pursuant to the Agreement entitled "Unit Agreement, Ranger Lake Unit, Lea County, New Mexico", hereinafter referred to as "Unit Agreement", a counterpart of which was filed for record on March 9, 1964, in Book 215, Page 63 of the Oil and Gas Lease Records of Lea County, New Mexico; and

WHEREAS, Article 22 of the Unit Agreement provides that the term of the Agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as drilling, reworking, or other operations (including secondary recovery) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners of ninety percent (90%) unit participation whenever such Working Interest Owners determine that unit operations are no longer profitable, feasible, or in the interest of conservation, with the approval of the Commission and the Commissioner, and with notice of such approval given by Unit Operator to all parties thereto; and

WHEREAS, said Article 22 further provides that upon termination of the Agreement, the further development and operation of the Unit Area as a unit shall be abandoned, unit operations shall cease, and thereafter the parties thereto shall be governed by the terms and provisions of the leases and contracts affecting the separate tracts just as if the Agreement had never been entered into; and

WHEREAS, said Article 22 further provides that if not otherwise covered by the leases unitized under the Agreement, Royalty Owners grant Working Interest Owners a period of three (3) months after termination of the Agreement in which to salvage, sell, distribute, or otherwise dispose of the personal property and facilities used in connection with unit operations.

NOW, THEREFORE, Phillips Petroleum Company, as Unit Operator, does hereby certify that Working Interest Owners of ninety nine and seven tenths percent (99.7%) unit participation have determined that unit operations are no longer profitable, feasible, or in the interest of conservation, and further have determined that the Unit Agreement shall be terminated on April 1, 1973.

IN WITNESS WHEREOF, this instrument is executed as of the 6th day
of February, 1973.

PHILLIPS PETROLEUM COMPANY

ATTEST:

L. Campbell

By F. F. Lovering *FW*
Attorney-in-Fact

STATE OF TEXAS §

COUNTY OF ECTOR §

Before me, the undersigned authority, on this day personally appeared
F. F. Lovering, known to me to be the person who executed the foregoing
instrument as Attorney-in-Fact of Phillips Petroleum Company and acknowledged to
me that he executed the same for the purposes and consideration therein expressed;
as the act and deed of said corporation and in the capacity therein stated.

Given under my hand and seal of office this 6th day of February,
1973.

My commission expires:
June 1, 1973

Dorothy V. Anderson Dorothy V. Anderson
Notary Public in and for
Ector County, Texas

IN WITNESS WHEREOF, this Certificate of Termination is executed as of
this 9th day of February, 1973.

Alf J. Armitage
Commissioner of Public Lands
of the State of New Mexico

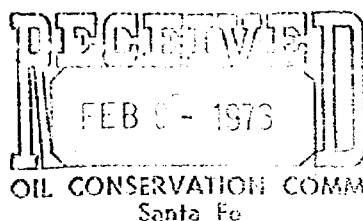
IN WITNESS WHEREOF, this Certificate of Termination is executed as of
this 9th day of February, 1973.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

By A. L. Parter
Secretary-Director

STATE OF NEW MEXICO §

COUNTY OF LEA §



FEB 8 10 33 AM '73

STATE LAND
SANTA FE, N. M.

CERTIFICATE OF TERMINATION

RANGER LAKE UNIT

LEA COUNTY, NEW MEXICO

WHEREAS, Phillips Petroleum Company, a Delaware Corporation, duly authorized to do business in the State of New Mexico, and with its principal office in Bartlesville, Oklahoma, has been duly designated as Unit Operator pursuant to the Agreement entitled "Unit Agreement, Ranger Lake Unit, Lea County, New Mexico", hereinafter referred to as "Unit Agreement", a counterpart of which was filed for record on March 9, 1964, in Book 215, Page 63 of the Oil and Gas Lease Records of Lea County, New Mexico; and

WHEREAS, Article 22 of the Unit Agreement provides that the term of the Agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as drilling, reworking, or other operations (including secondary recovery) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners of ninety percent (90%) unit participation whenever such Working Interest Owners determine that unit operations are no longer profitable, feasible, or in the interest of conservation, with the approval of the Commission and the Commissioner, and with notice of such approval given by Unit Operator to all parties thereto; and

WHEREAS, said Article 22 further provides that upon termination of the Agreement, the further development and operation of the Unit Area as a unit shall be abandoned, unit operations shall cease, and thereafter the parties thereto shall be governed by the terms and provisions of the leases and contracts affecting the separate tracts just as if the Agreement had never been entered into; and

WHEREAS, said Article 22 further provides that if not otherwise covered by the leases unitized under the Agreement, Royalty Owners grant Working Interest Owners a period of three (3) months after termination of the Agreement in which to salvage, sell, distribute, or otherwise dispose of the personal property and facilities used in connection with unit operations.

NOW, THEREFORE, Phillips Petroleum Company, as Unit Operator, does hereby certify that Working Interest Owners of ninety nine and seven tenths percent (99.7%) unit participation have determined that unit operations are no longer profitable, feasible, or in the interest of conservation, and further have determined that the Unit Agreement shall be terminated on April 1, 1973.

IN WITNESS WHEREOF, this instrument is executed as of the 6th day
of February, 1973.

PHILLIPS PETROLEUM COMPANY

ATTEST:

L. Campbell

By F. F. Lovering
Attorney-in-Fact

STATE OF TEXAS §

COUNTY OF ECTOR §

Before me, the undersigned authority, on this day personally appeared
F. F. Lovering, known to me to be the person who executed the foregoing
instrument as Attorney-in-Fact of Phillips Petroleum Company and acknowledged to
me that he executed the same for the purposes and consideration therein expressed;
as the act and deed of said corporation and in the capacity therein stated.

Given under my hand and seal of office this 6th day of February,
1973.

My commission expires:
June 1, 1973

Dorothy V. Anderson Dorothy V. Anderson
Notary Public in and for
Ector County, Texas

IN WITNESS WHEREOF, this Certificate of Termination is executed as of
this 9th day of February, 1973.

Alfred Ramirez
Commissioner of Public Lands
of the State of New Mexico

IN WITNESS WHEREOF, this Certificate of Termination is executed as of
this 9th day of February, 1973.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

By A. H. Porter
Secretary-Director

- CASE 3087: Application of William A. and Edward R. Hudson for an unorthodox location, Eddy County, New Mexico. Applicants, in the above-styled cause, seek authority to drill their Puckett "A" Well No. 26 at an unorthodox location 1295 feet from the North and West lines of Section 24, Township 17 South, Range 31 East, Eddy County, New Mexico. Said well would be projected to the Paddock formation at approximately 5400 feet.
- CASE 3088: Application of Phillips Petroleum Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Ranger Lake Unit Area comprising 2,680 acres, more or less, of State land in Township 12 South, Range 34 East, Lea County, New Mexico.
- CASE 3089: Application of Phillips Petroleum Company for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the Ranger Lake-Pennsylvanian Pool in its Ranger Lake Unit Area by the injection of water into the Pennsylvanian formation through nine wells in Sections 14, 23, 24, 25, 26, 27, 34 and 35, Township 12 South, Range 34 East, Lea County, New Mexico.
- CASE 3090: Application of Tenneco Oil Company for salt water disposal, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water in the Pictured Cliffs formation through its Callow Well No. 2 located in Unit B, Section 33, Township 29 North, Range 13 West, West Kutz-Pictured Cliffs Pool, San Juan County, New Mexico.
- CASE 3091: Application of The British-American Oil Producing Company for a dual completion and pool commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the dual completion (conventional) of its North Wilson Deep Unit Well No. 1, located in Unit O of Section 31, Township 20 South, Range 36 East, Lea County, New Mexico, to produce oil from the Upper Bone Spring formation and the Lower Bone Spring formation through parallel strings of tubing. Applicant further seeks authority to commingle the production from said pools after separately metering the Lower Bone Spring production.
- CASE 3092: Application of The British-American Oil Producing Company for the creation of a new oil pool and special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new oil pool for Upper Bone Spring production for its North Wilson Deep Unit Well No. 1, located in Unit O of Section 31, Township 20 South, Range 36 East, Lea County, New Mexico, which well is perforated from 7888 to 7901 feet. Applicant further seeks the promulgation of special rules for said pool, including a provision for 80-acre proration units.
- CASE 3093: Application of The British-American Oil Producing Company for the creation of a new oil pool and special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new oil pool for Lower Bone Spring production for its North Wilson Deep Unit Well No. 1, located in Unit O of Section 31, Township 20 South, Range 36 East, Lea County, New Mexico, which well is perforated from 10,094 to 10,122 feet. Applicant further seeks the promulgation of special rules for said pool, including a provision for 80-acre proration units.

Docket No. 20-64

DOCKET: EXAMINER HEARING - WEDNESDAY - JULY 22, 1964

9 A. M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Elvis A. Utz, Alternate Examiner:

- CASE 3081: Application of Shell Oil Company for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the Langlie-Mattix Pool by the injection of water through four wells at unorthodox locations in Section 21, Township 24 South, Range 37 East, Lea County, New Mexico.
- CASE 3082: Application of Union Oil Company of California for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Devonian formation through perforations from 11,246 feet to 11,285 feet in its State-Gross Well No. 2 located in Unit L of Section 11, Township 12 South, Range 32 East, East Caprock Field, Lea County, New Mexico.
- CASE 3083: Application of General American Oil Company of Texas for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Premier Sand through twelve wells located in Sections 27, 28, 33 and 34, Township 17 South, Range 30 East, Eddy County, New Mexico. Certain of the aforesaid injection wells would be drilled at unorthodox locations.
- CASE 3084: Application of Fair Oil Company for a buffer zone extension and pool redelineation, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an amendment of Order No. R-2033 to extend the waterflood buffer zone authorized by said order to include the SE/4 NE/4 of Section 36, Township 17 South, Range 29 East, Eddy County, New Mexico. Applicant further seeks the extension of the Loco Hills Pool to include said quarter-quarter section, and the associated deletion of said acreage from the Grayburg-Jackson Pool.
- CASE 3085: Application of Humble Oil & Refining Company for two non-standard oil proration units, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of two non-standard 80-acre oil proration units in Section 7, Township 19 South, Range 35 East, Scharb Bone Springs Pool, Lea County, New Mexico. The first unit would comprise the NW/4 NE/4 and the NE/4 NW/4 of Section 7 and be dedicated to applicant's Alves Well No. 1 located in Unit B of said Section 7. The second unit would comprise the SW/4 NE/4 and the SE/4 NW/4 of Section 7 and be dedicated to applicant's Alves Well No. 2, which would be drilled in Unit G of said Section 7.
- CASE 3086: Application of Texaco Inc. for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the Rhodes Yates Oil Pool by the injection of water into the Yates and Seven Rivers formations through two wells in Section 26, Township 26 South, Range 37 East, Lea County, New Mexico.

GOVERNOR
JACK M. CAMPBELL
CHAIRMAN

State of New Mexico
Oil Conservation Commission



P. O. BOX 871
SANTA FE

LAND COMMISSIONER
E. B. JOHNNY WALKER
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

July 29, 1964

Mr. Jason Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: Case No. 3088
Order No. R-2751
Applicants:
Phillips Petroleum Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Commission order recently entered in the subject case.

Very truly yours,

A. L. Porter, Jr.

A. L. PORTER, Jr.
Secretary-Director

ix/

Carbon copy of order also sent to:

Hobbs OCC x

Artesia OCC

Astec OCC

OTHER

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 3080
Order No. R-2751

APPLICATION OF PHILLIPS PETROLEUM
COMPANY FOR APPROVAL OF THE RANGER
LAKE UNIT AGREEMENT, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on July 22, 1964, at Santa Fe, New Mexico, before Examiner Daniel E. Nutter.

NOW, on this 29th day of July, 1964, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, 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 applicant, Phillips Petroleum Company, seeks approval of the Ranger Lake Unit Agreement covering 2680 acres, more or less, of State land in Township 12 South, Range 14 East, NMPM, Lea County, New Mexico.

(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the Ranger Lake Unit Agreement is hereby approved.

-2-

CASE No. 3088
Order No. R-2751

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby 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, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

LEA COUNTY, NEW MEXICO
TOWNSHIP 12 SOUTH, RANGE 34 EAST

Section 14: E/2 SE/4
Section 22: E/2 SE/4
Section 23: All
Section 24: W/2 W/2
Section 25: NW/4
Section 26: All
Section 27: E/2 and SE/4 SW/4
Section 34: E/2 and E/2 NW/4
Section 35: NW/4

containing 2680 acres, more or less.

(4) That the unit area may be enlarged or contracted as provided in the unit agreement; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

-3-

CASE No. 3088

Order No. R-2751

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico; that this order shall terminate ~~ipso facto~~ upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.

(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JACK M. CAMPBELL, Chairman

E. S. WALKER, Member

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

B E A I.

esr/

MAIN OFFICE OCC

1964 JUN 18 PM 3:22

BEFORE THE OIL CONSERVATION COMMISSION
OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF PHILLIPS PETROLEUM COMPANY FOR
APPROVAL OF THE RANGER LAKE UNIT
AGREEMENT EMBRACING 2,680 ACRES,
MORE OR LESS, LOCATED IN TOWNSHIP
12 SOUTH, RANGE 34 EAST, N.M.P.M.,
LEA COUNTY, NEW MEXICO.

Case No. 3088

A P P L I C A T I O N

Comes now Phillips Petroleum Company, a Delaware corporation duly authorized to do business in the State of New Mexico, and applies to the Oil Conservation Commission for approval of the Ranger Lake Unit, Lea County, New Mexico, and the unit agreement and unit operating agreement applicable to said unit area, and in support thereof would show:

1. The proposed unit area covered by said unit agreement embraces 2,680 acres, more or less, and such additional lands to which said agreement may be extended, as provided therein, the unit area being more particularly described as follows:

Township 12S, Range 34E

Section 14: E/2 SE/4
Section 22: E/2 SE/4
Section 23: All
Section 24: W/2 NW/4 and W/2 SW/4
Section 25: NW/4
Section 26: All
Section 27: E/2 and SE/4 SW/4
Section 34: E/2 and E/2 NW/4
Section 35: NW/4

2. The formation to be unitized is commonly known as the Ranger Lake zone of the Pennsylvanian formation, further identified as the producing formation found in the Phillips Petroleum Company's Ranger Lake Unit No. 1 well located in the SE/4 SE/4, Section 23, Township 12 South, Range 34 East, Lea County, New Mexico, between the depths of 6,080 and 6,230 feet below sea level.

DOCKET MAILED

Date 7/8/64

3. The lands embraced within the proposed unit area consist of State lands.

4. The unit agreement and unit operating agreement will permit the producing area to be developed and operated in the interest of conservation and the prevention of waste of oil and gas. Applicant Phillips Petroleum Company is designated as unit operator in said unit agreement and as such is given authority under the terms thereof to carry on all operations necessary for the development and operation of the unit area and the unitized formation for the production of oil and gas, subject to all applicable laws and regulations.

5. A copy of the unit agreement and unit operating agreement for the development and operation of the Ranger Lake Unit area is filed herewith as Exhibit "1", and made a part hereof. The unit agreement is in substantially the same form as agreements heretofore approved by the New Mexico Oil Conservation Commission and the Commissioner of Public Lands, and a copy thereof has been submitted to the office of the Commissioner of Public Lands for approval. Names of all interest owners in the lands and formation unitized are shown in Exhibit "B" attached to the said unit agreement.

WHEREFORE, applicant requests that this matter be set for hearing before the Commission's examiner, and that after notice and hearing as required by law, the Commission enter its order approving the Ranger Lake Unit, Lea County, New Mexico.

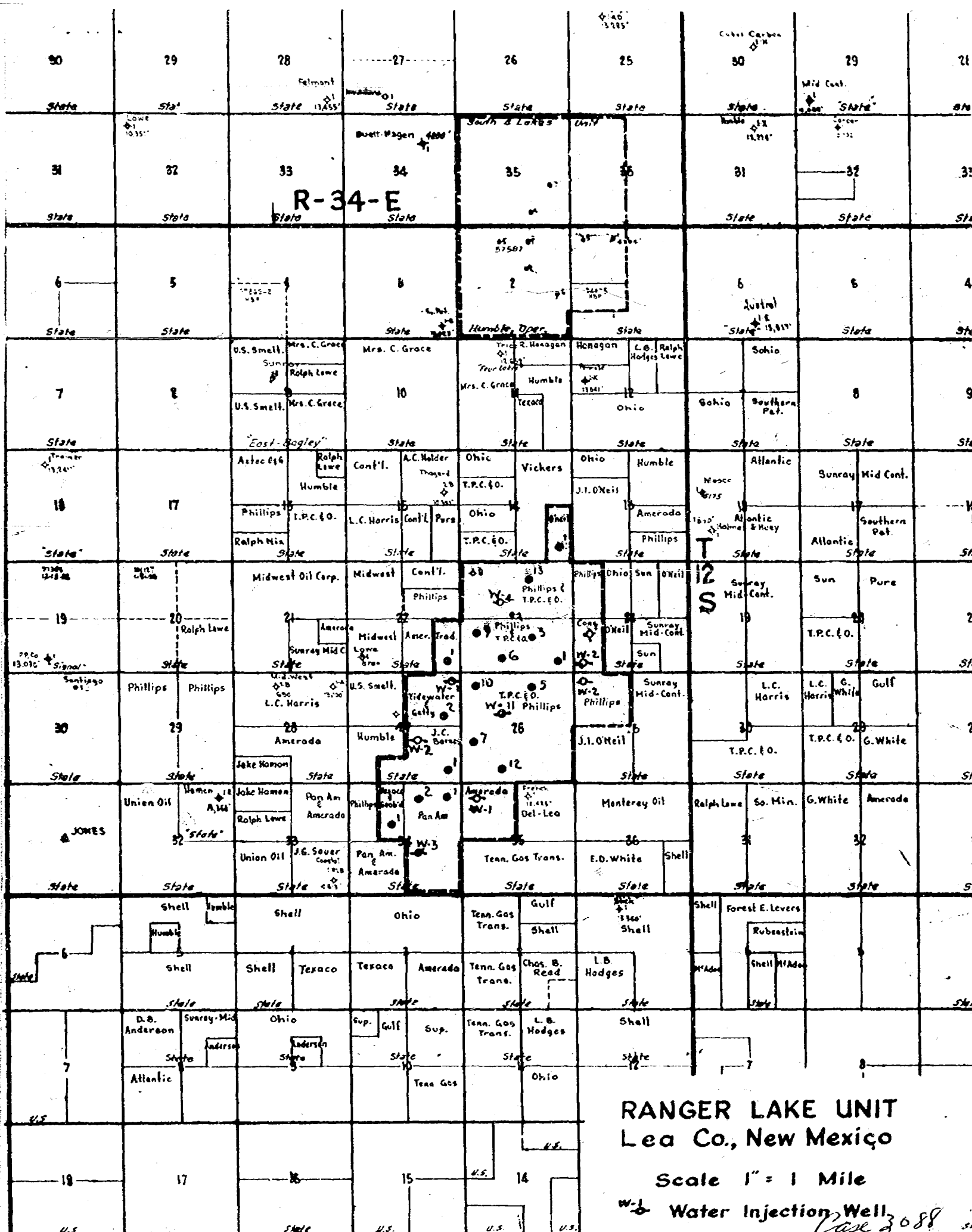
PHILLIPS PETROLEUM COMPANY

By Jason W. Kellahin
Jason W. Kellahin
Kellahin & Fox
P. O. Box 1759
Santa Fe, New Mexico

CARL W. JONES
P. O. Box 791
Midland, Texas

J. V. PEACOCK
P. O. Box 791
Midland, Texas

ATTORNEYS FOR APPLICANT



DRAFT

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 3088

Order No. R-2751

APPLICATION OF PHILLIPS PETROLEUM COMPANY
FOR APPROVAL OF THE RANGER LAKE
UNIT AGREEMENT, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on
July 22, 1964, at Santa Fe, New Mexico, before Examiner
Daniel S. Nutter.

NOW, on this day of July, 1964, the Commission,
a quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, 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 applicant, Phillips Petroleum Company,
seeks approval of the Ranger Lake Unit Agreement
covering 2680 acres, more or less, of State lands in
and Lea County, New Mexico.
Township 12 South Range 34 East NMPM,
Lea County, New Mexico.

(3) That approval of the proposed unit agreement should
promote the prevention of waste and the protection of correla-
tive rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the Ranger Lake Unit Agreement
is hereby approved.

(2) That the plan contained in said unit agreement for the
development and operation of the unit area is hereby 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, duty, or obligation

which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

LEA COUNTY, NEW MEXICO

TOWNSHIP 12 SOUTH, RANGE 34 EAST

Section 14: E/2 SE/4
Section 22: E/2 SE/4
Section 23: All
Section 24: W/2 W/2
Section 25: NW/4
Section 26: All
Section 27: E/2 and SE/4 SW/4
Section 34: E/2 and E/2 NW/4
Section 35: NW/4

containing 2680 acres, more or less.

(4) That the unit area may be enlarged or contracted as provided in the unit agreement; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico ~~and the Director of the United States Geological Survey~~; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.

(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

DEARNLEY-MEIER REPORTING SERVICE, Inc.

FARMINGTON, N. M.
PHONE 325-1182

SANTA FE, N. M.
PHONE 983-3971

ALBUQUERQUE, N. M.
PHONE 243-6691

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
July 22, 1964

EXAMINER HEARING

IN THE MATTER OF:

Application of Phillips Petroleum Company
for a unit agreement, Lea County, New
Mexico. Applicant, in the above-styled
cause, seeks approval of the Ranger Lake
Unit Area comprising 2,680 acres, more
or less, of State land in Township 12
South, Range 34 East, Lea County, New
Mexico.

Case No. 3088

Application of Phillips Petroleum Company
for a waterflood project, Lea County,
New Mexico.

Case No. 3089

BEFORE: DANIEL S. NUTTER, Examiner.

TRANSCRIPT OF HEARING



MR. NUTTER: We will call Case 3083.

MR. DURRETT: Application of Phillips Petroleum Company for a unit agreement, Lea County, New Mexico.

MR. KELLAHIN: Jason Kellahin, Kellahin and Fox, Santa Fe, representing the Applicant. We have one witness we would like to have sworn.

(Witness sworn.)

M. H. McCONNELL

called as a witness, having been first duly sworn on oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A M. H. McConnell.

Q By whom are you employed and in what position?

A Phillips Petroleum Company as a petroleum engineer.

Q Mr. McConnell, have you ever testified before the Oil Conservation Commission of New Mexico and made your qualifications a matter of record?

A Yes, I have.

MR. KELLAHIN: Are the witness's qualifications acceptable?

MR. NUTTER: Yes, sir.



Q Mr. McConnell, are you familiar with the application of Phillips Petroleum Company in Case 3088?

A Yes, sir.

MR. KELLAHIN: At this time I would like to move the Commission that this case be consolidated with Case 3089 in view of the fact one is a unit agreement and the other covers a waterflood project for the same unit.

MR. NUTTER: We will now call Case 3089.

MR. DURRETT: Application of Phillips Petroleum Company for a waterflood project, Lea County, New Mexico.

MR. NUTTER: Is there objection to the consolidation of Cases 3088 and 3089 for purposes of hearing? The cases will be consolidated.

Q (By Mr. Kellahin) Are you familiar with the application of Phillips in Case 3089?

A Yes, I am.

Q Would you state briefly to the Commission Examiner what is proposed by Phillips Petroleum Company in these two cases?

A We propose to unitize the reservoir that produces in this area, the Ranger Lake-Penn formation, and we propose to initiate a water injection program to waterflood this reservoir and increase the recovery.

Q Do you have a plat showing the area involved in this



application?

A Yes, sir.

(Whereupon, Applicant's Exhibit No. 1 was marked for identification.)

MR. NUTTER: Mr. McConnell, what office do you work out of?

A I work out of the Phillips office in Odessa.

Q (By Mr. Kellahin) Now, referring to what has been marked as Exhibit No. 1, Mr. McConnell, would you identify that exhibit and state what is shown on it?

A This exhibit shows lease ownership in the area surrounding the proposed Ranger Lake Unit. It shows colored in yellow the proposed unit area, which is the entire producing reservoir, and it shows all producing wells and those wells with the large circle around them as the proposed water injection wells.

Q In connection with the application, a copy of the unit agreement and unit operating agreement was filed with the Oil Conservation Commission, was it not?

A Yes, sir.

Q Making reference to that exhibit attached to the application and in particular to the unit area as shown by Exhibit A, has all of the area been committed to the unit?

A As of now it has not all been committed to the unit



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ALBUQUERQUE, N. M.
PHONE 243-6691

agreement.

Q What areas have not been committed as to the working interest we're referring to?

A Tract 3 has not been committed, which is in Section 22. Tract 4 has not been committed in Section 24, and Tract 7 in Section 34 has not been committed.

Q Has the remainder of the tracts as shown on Exhibit A been committed to the unit?

A Yes, sir.

Q And all of the working interest owners have agreed to unitization?

A Yes, sir.

Q And have they agreed to the waterflood project as proposed?

A Yes, they have.

Q What is the status as to the royalty interest involved in this unit?

A The royalty is all owned by the State of New Mexico.

Q Has the form of unit been submitted to the office of the State Land Commissioner?

A Yes, it has.

Q Has approval been given by the State Land Commissioner as to the form and content of the unit agreement?



A Yes, sir, approval has been given in letter form.

Q What is the situation as to any overriding royalties?

A All overriding royalties have been committed to the unit agreement.

Q Are all of the lands involved in this unit state lands?

A Yes, sir.

Q And there are no federal or fee lands involved?

A That's correct.

Q Does the unit agreement substantially give control of the area for secondary recovery purposes?

A Yes, sir, it does.

Q In connection with the secondary recovery program, did you file with the application an exhibit showing the present status of the wells which will be utilized for injection wells?

A We did.

Q Are those wells as presently shown, will they be utilized in that fashion for water injection purposes?

A Well, these diagrams show the present status of the wells as they are shown in the Commission office in Hobbs. The only deviation from this is that we will install a packer in each well and inject through tubing under a packer in all cases.

MR. KELLAHIN: Off the record.

(Whereupon, a discussion was held off the record.)



(Whereupon, Applicant's Exhibit No. 2, pages 1 through 9, were marked for identification.)

Q Referring to what has been marked as Exhibit 2, pages 1 through 9, are those the schematic diagrams of the present status of the wells you just mentioned?

A Of our proposed injection wells.

Q What do you propose to do to these wells for injection purposes?

A We will set a permanent packer immediately above the injection formation which is now the production formation, and set a string of tubing in the packer so that in all cases injection will be through a string of tubing and under a packer.

Q Now, the exhibit reflects that there are two strings of tubing in some of the wells on which a Kobe pump is apparently used. Only one string of tubing will be used in those wells?

A That's right, this parallel string of tubing will be pulled out and only the large string will be run back in and set in the packer.

Q Was this manner of completion discussed by you with the State Engineer?

A Yes, it was.

Q Did the State Engineer's Office, through Mr. Irby, agree to this proposed manner of completion?

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ALBUQUERQUE, N. M.
PHONE 243-6691



A Yes, sir.

Q They furnished a letter to the Commission to that effect?

A Yes.

Q What will be the source of water to be used for injection?

A It will be an Ogallala formation.

Q Are you buying the water?

A No, we develop our own supply within the unit area.

Q You have permits from the State Engineer and have already developed the water supply?

A That is correct.

Q What volumes will be injected in the unit?

A We anticipate injecting 12,000 barrels per day.

Q Through the nine wells?

A Through the nine wells.

Q Will the injection start immediately on all of the wells, is that your plan?

A That's the plan.

Q Is this area at a substantial stage of completion?

A Yes, it's essentially depleted now.

Q Would you say it is at the stripper stage?

A Yes, sir, it is at the stripper stage.

Q Is there any primary recovery left in the field at the



present time?

A Only an insignificant amount.

Q Do you have logs of each of the injection wells?

A I believe we have them right here.

MR. NUTTER: We have the logs, I presume they are the same logs.

A Same logs.

MR. NUTTER: The file is pretty thick, I think we can probably get along without those.

Q (By Mr. Kellahin) Logs on all the wells have been supplied to the Commission, have they not?

A Yes, sir.

MR. KELLAHIN: At this time I would like to offer in evidence Exhibits 1 and 2.

MR. NUTTER: Were you planning to offer the brochure as an exhibit?

MR. KELLAHIN: If the Commission desires.

MR. NUTTER: I would like to have this as an exhibit.

(Whereupon, Applicant's Exhibit No. 3 was marked for identification.)

Q Directing your attention to what has been marked as Exhibit No. 3 in Case 3033, is that the form of unit agreement proposed in this application?



A Yes, it is.

Q Is that unit agreement substantially the same form that has been approved in previous cases by this Commission?

A Yes, it's the same form essentially.

MR. KELLAHIN: At this time I would like to offer in evidence Exhibits 1, 2 and 3.

MR. NUTTER: Applicant's Exhibits 1 through 3 will be admitted in evidence.

(Whereupon, Applicant's Exhibits 1, 2 and 3 were offered and admitted in evidence.)

MR. KELLAHIN: That's all I have on direct examination, Mr. Nutter.

MR. NUTTER: Are there any questions of Mr. McConnell?

CROSS EXAMINATION

BY MR. NUTTER:

Q I believe you stated that Tracts 3, 4 and 7 had not been committed?

A That's right.

Q Tract No. 4 has one of the proposed injection wells on it. Is this going to be converted to injection and operated independently, or are you anticipating that the well will come into the unit?

A We expect that the well will come in, but it's not



committed as of today. If it is not committed by the time we commence injection, it just won't be one of the injection wells.

Q So we'll have eight wells rather than the nine?

A That's correct.

Q What's the status of the deal between American Trading and Texaco as far as the units are concerned?

A Well, American Trading has not elected as of the present time to ratify the unit agreement simply because that's almost a dry hole and they weren't going to have much ownership. They may sell it to the unit rather than ratify or it may be plugged. It has very little value anyway, because it's total cumulative production has only been about 1900 barrels. It was just included because we included the entire reservoir in the proposed unit.

Q How about Texaco's CS lease?

A Texaco has a half interest in that and has not ratified. Sunray DX, who has the other interest, has ratified. Whether Texaco is going to ratify, I don't know.

Q No injection well down there on that lease?

A That's right.

Q What's the total cumulative production from this field, Mr. McConnell?

A As of the first of this year it was 3,099,000 barrels.

Q That's through December of '63?



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PHONE 243-6631

A Correct.

Q Have you made any estimates as to what you'll recover as a result of the secondary effort?

A Yes, we estimate 3,210,000 barrels. This is the same as the ultimate primary estimate.

Q What is the participation formula under the unit agreement?

A It's a two-phase formula. I believe Phase 1 is half the remaining primary --

Q This is it on pages 7 and 8, I presume, of the brochure?

A That's right. The primary phase is fifty percent six months' production for the first half of 1962 and fifty percent remaining primary production subsequent to June the 30th, 1962. Now, if you look on the agreement there is a typographical error there. It shows '63, that should be '62.

Q That's on page 8?

A On page 8.

Q And you do have tentative approval from the Commissioner of Public Lands of the unit agreement?

A Yes, sir.

Q Mr. McConnell, will this tubing that will be installed in these wells be plastic coated?

A Either plastic coated or cement coated.



MR. NUTTER: Any other questions of Mr. McConnell?

He may be excused.

(Witness excused.)

MR. NUTTER: Do you have anything further, Mr. Kellahin?

MR. KELLAHIN: That's all I have, Mr. Nutter.

MR. NUTTER: Does anyone have anything they wish to offer in Cases 3088 or 3089?

MR. DURRETT: I would like to state for the record that we have received a letter from Mr. Frank Irby, the State Engineer's Office, that was referred to in the testimony.

MR. NUTTER: If there's nothing further in Cases 3088 and 3089 we'll take these cases under advisement.



STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me; and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

Witness my Hand and Seal this 3rd day of August, 1964.

Ada Dearnley
NOTARY PUBLIC

My Commission Expires:

June 19, 1967.

I do hereby certify that the foregoing is a complete record of the hearing held in the Executive hearing of Case No. 5088-3089 heard by me on July 22, 1964.

Examiner, Examiner
New Mexico Oil Conservation Commission



BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 3088
Order No. R-2751

APPLICATION OF PHILLIPS PETROLEUM
COMPANY FOR APPROVAL OF THE RANGER
LAKE UNIT AGREEMENT, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on July 22, 1964, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 29th day of July, 1964, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, 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 applicant, Phillips Petroleum Company, seeks approval of the Ranger Lake Unit Agreement covering 2680 acres, more or less, of State land in Township 12 South, Range 34 East, NMPM, Lea County, New Mexico.

(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the Ranger Lake Unit Agreement is hereby approved.

-2-

CASE No. 3088
Order No. R-2751

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby 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, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

LEA COUNTY, NEW MEXICO
TOWNSHIP 12 SOUTH, RANGE 34 EAST

Section 14: E/2 SE/4
Section 22: E/2 SE/4
Section 23: All
Section 24: W/2 W/2
Section 25: NW/4
Section 26: All
Section 27: E/2 and SE/4 SW/4
Section 34: E/2 and E/2 NW/4
Section 35: NW/4

containing 2680 acres, more or less.

(4) That the unit area may be enlarged or contracted as provided in the unit agreement; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

-3-

CASE No. 3088

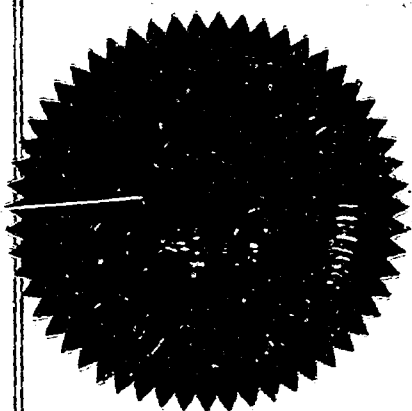
Order No. R-2751

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.

(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


Jack M. Campbell
JACK M. CAMPBELL, Chairman

E. S. Walker
E. S. WALKER, Member

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

esr/

1 x 11 1/2
Cs 3088 - 0111

**UNIT AGREEMENT
and
UNIT OPERATING AGREEMENT**

**RANGER LAKE UNIT
Lea County, New Mexico**

Cs 3088

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION OF THE

RANGER LAKE UNIT

RANGER LAKE FIELD

LEA COUNTY, NEW MEXICO

UNIT AGREEMENT
RANGER LAKE UNIT
LEA COUNTY, NEW MEXICO

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Exhibits

Exhibit "A": Map of Unit Area

Exhibit "B": Leasehold Information With Working
Interest Participations

Certificate of Approval - State of New Mexico

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
RANGER LAKE UNIT
RANGER LAKE FIELD
LEA COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 1st day of March, 1964, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as "parties hereto",

W I T N E S S E T H:

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 (Section 3, Chapter 88, Laws 1943 as amended by Section 1 of Chapter 162, Laws of 1951) to consent to or approve this Agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 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 terms of the unitized development and operation of State lands; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chapter 72, Laws of 1935, as amended by Chapter 193, Laws of 1937, Chapter 166, Laws of 1951, and Chapter 168, Laws of 1949) to approve this Agreement, and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Unit Area subject to this Agreement to give reasonable effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, to conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the Unit Area subject to this Agreement under the terms, conditions, and limitations herein set forth.

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

1. DEFINITIONS: For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

- (a) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells completed in the Unitized Formation.
- (d) "Productive Acreage" is defined as and shall mean the acreage reasonably proven to be productive of Unitized Substances from the Unitized Formation.
- (e) "Remaining Primary Production" is defined as and shall be all oil produced from the Unitized Formation from July 1, 1962, until 7:00 o'clock a.m. the first day of the calendar month after 477,871 barrels of oil have been produced from the Unitized Formation. The above Remaining Primary Production is predicated upon 100 per cent commitment of the hereinabove described lands as constituting the Unit Area, and shall be subject to correction to coincide with the Remaining Primary Production of the unitized portion of the reservoir, in event of noncommitment of any tract.
- (f) "Royalty Interest" means a right to or interest in any portion of the Unitized Substances or proceeds thereof other than Working Interest.
- (g) "Royalty Owner" means a party hereto who owns a Royalty Interest.
- (h) "Secondary Production" is defined as and shall be all oil produced from the Unitized Formation after the Remaining Primary Production has been produced.
- (i) "Unitized Formation" is defined as and shall mean that heretofore established underground reservoir, underlying Unit Area and commonly known as the Ranger Lake zone of the Pennsylvanian Formation, being further identified as the producing formation found in Phillips Petroleum Company's Ranger Unit No. 1 well located in the SE/4 SE/4, Section 23-T12S-R34E, Lea County, New Mexico between the depths of 6080 feet and 6230 feet below sea level.
- (j) "Unitized Substances" is defined as and shall mean all of the oil and gas contained in or produced from the Unitized Formation.
- (k) "Unitized Land" or "land subject to this Agreement" is defined as and shall mean those lands within the Unit Area which are committed to this Agreement.

- (l) "Unit Manager" is defined as the person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8 hereof.
- (m) "Unit Operating Agreement" is defined as and shall mean the Agreement entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 9, entitled, "Unit Operating Agreement, Ranger Lake Unit, Lea County, New Mexico", or any amendment or supplement thereto.
- (n) "Usable Well" is defined as a well which has been drilled in the Unit Area to the depth of the Unitized Formation and has casing in the hole in condition for use as either a producing well or an injection well, and on which well there has been filed with the State of New Mexico, on or before the effective date of this Agreement, a well record and Completion Report (Form C-105) or Request for Oil Allowable (Form C-104) and which well has produced some oil from the Unitized Formation and has had an allowable granted for it by the Oil Conservation Commission of the State of New Mexico.
- (o) "Working Interest" means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing, and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (p) "Working Interest Owner" means a party hereto who owns a Working Interest. The owner of oil and gas rights that are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

2. UNIT AREA AND PARTICIPATION: The following described land is hereby designated and recognized as constituting the Unit Area as to which this Agreement becomes effective, to wit:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

T. 12S, R. 34E

Section 14: E/2 SE/4

22: E/2 SE/4

23: All

24: W/2 NW/4 & W/2 SW/4

25: NW/4

26: All

Section 27: E/2 and SE/4 SW/4

34: E/2 and E/2 NW/4

35: NW/4

Situated in Lea County, New Mexico, containing 2,680 acres, more or less, and such additional lands to which this Agreement may be extended, all as herein provided.

Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage comprising each tract, percentage ownership of each Working Interest Owner in each tract, number of wells on each tract and the percentages of participation, both primary and secondary, as well as the Remaining Primary Production of each tract in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. 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. Two copies of such revision shall be filed with the Commissioner.

The above described Unit Area may, when practicable, be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this Agreement. Such expansion shall be effected in the following manner:

- (a) The owner or owners of the Working Interest in and to a tract or tracts desiring to bring such tract or tracts into the Unit Area, shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the unit participation to be assigned to such tract or tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having ninety per cent (90%) of the Working Interest in the Unit Area agree to such tract or tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner,
 - (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional tract or tracts, the unit participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the day of notice; and
 - (2) Deliver copies of said notice to the Commissioner, each Working Interest Owner (mailing copy of such notice to the last known address of each such Working Interest Owner) and to the lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such

proposed expansions; and

- (3) File, upon the expiration of said thirty (30) day period as set out in Item 2 immediately above, with the Commissioner the following: (a) evidence of mailing copies of said notice of expansion; (b) an application for such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirement of Section 31, "Nonjoinder and Subsequent Joinder", infra; and (d) copy of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner, become effective as of the date prescribed in the notice thereof.

3. UNITIZED SUBSTANCES AND RIGHTS: All oil and gas in or that may be produced from the Unitized Formation underlying the lands subject to this Agreement, together with the right to use the surface of said lands for the development and operation of the Unitized Formation are unitized under the terms of this Agreement. Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas, and other minerals contained in or that may be produced from any formation other than the Pennsylvanian Formation, as above described.

4. UNIT OPERATOR: Phillips Petroleum Company, Bartlesville, Oklahoma, is hereby designated as Unit Operator and by signing this instrument as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the operation and development of the Unitized Formation for the 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.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after notice of intention to resign has been served by Unit Operator on all Working Interest Owners and the Commissioner, and until all wells then subject hereto are placed in a satisfactory condition for suspension or abandonment, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may be subject to removal by eighty-five per cent (85%) of the committed Working Interests on the basis of unit participation, in effect at the time, exclusive of the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

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

The resignation or removal of Unit Operator, under this Agreement, shall not terminate its right, title, or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, appurtenances, and any other assets, used in conducting the unit operations and owned by the Working Interest Owners to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator by a majority of the Working Interests on the basis of unit participation, provided no Unit Operator who has been removed may vote for self succession. 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 or Unit Manager is selected and qualified as herein provided, the Commissioner, at his election, may declare this Unit Agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: Costs and expenses incurred by Unit Operator, in conducting unit operations hereunder, shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the agreement or agreements entered into (separately or collectively) by and between the Working Interest Owners. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this section shall be filed with the Commissioner prior to approval of this Agreement.

8. 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.

9. PLAN OF OPERATIONS: It is recognized and agreed, by the parties hereto, that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect the greatest recovery of Unitized Substances, prevent waste, and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, and any one or more other substances whether produced from the Unit Area or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. Subject to like approval, the plan of operations may be revised as conditions may warrant. The initial plan of operation shall be filed with the Commissioner concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Commissioner may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

10. TRACT PARTICIPATION: The primary and secondary Tract Participation of each Tract are shown on Exhibit B. The primary Tract Participation shall be the effective Tract Participations until 7:00 A.M. the first day of the month following the time when the total oil produced and saved from the Unitized Formation after June 30, 1962 equals the total of the remaining primary oil attributable to all Tracts in the Unit Area as shown on Exhibit B, which, if all the Tracts shown on Exhibit B qualify for inclusion in the Unit Area, amounts to four hundred seventy-seven thousand eight hundred seventy-one (477,871) barrels. Thereafter, the secondary Tract Participations shall be the effective Tract Participations. In the event all of the Tracts shown on Exhibit B do not qualify for inclusion in the Unit Area, the total amount of remaining primary oil to be produced from the Unitized Formation before the secondary Tract Participations become effective shall be reduced by the amount of the remaining primary oil attributable to the Tracts that do not qualify as shown on Exhibit B.

The primary and secondary Tract Participations shown in Exhibit B were determined in accordance with the following formulas:

(a) Primary Participation Formula

50% $\frac{\text{Tract Oil Production for the six (6) months prior to July, 1962}}{\text{Sum of Oil Production from all Tracts in Unit Area for the six months prior to July, 1962}}$

plus

Tract Remaining Primary Oil Production
50% Subsequent to June 30, 1968 ²
Sum of Remaining Primary Oil Production
from all Tracts in Unit Area

(b) Secondary Participation Formula

Tract Ultimate Primary Oil Production
Sum of Ultimate Primary Oil Production from all Tracts

If the Unit Area is enlarged or reduced, the revised Tract Participations of the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another.

11. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof and until the enlargement or reduction thereof, the Unit Area shall be composed of the tracts listed in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public highway or railroad right of way shall be considered to have a common boundary), and that otherwise qualify as follows:

- (a) Each tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest in said tract have signed or ratified this Agreement and the Unit Operating Agreement and as to which Royalty Owners owning one hundred per cent (100%) of the Royalty Interest in said tract have signed or ratified this Agreement; and
- (b) Each tract as to which Working Interest Owners owning not less than ninety-five per cent (95%) of the Working Interest in said tract have signed or ratified this Agreement and the Unit Operating Agreement and as to which Royalty Owners owning not less than seventy-five per cent (75%) of the Royalty Interest in said tract have signed or ratified this Agreement, and in which the Working Interest Owners in said tract who have signed or ratified this Agreement and Unit Operating Agreement have agreed to indemnify and hold harmless all other parties hereto, in a manner satisfactory to the Working Interest Owners qualified under (a), against any or all claims and demands that may be made by the nonjoining owners of working or royalty interests on account of the inclusion of such tract in the Unit Area and the operation of the Unit Area on the basis herein provided, and as to which eighty-five per cent (85%) of the Working Interest Owners qualified under (a), exclusive of the Working Interest Owner submitting such tract, have approved the inclusion of such tract in the Unit Area.

If, on the effective date of this Agreement, there is any tract or tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such tract or tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Commissioner, file therewith a schedule of those tracts

which have been committed and made subject to this Agreement and are entitled to participate in the production from the Unit Area hereunder. Said schedule shall set forth opposite each such committed tract, the lease number, assignment number, the owner of record and percentage participation of such tract which shall be computed according to the participation formula set out above. This schedule shall become revised Exhibit "B" and upon approval thereof by the Commissioner, shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is filed and approved by the Commissioner.

12. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices within the Unit Area for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the several tracts within the Unit Area in accordance with the respective tract participation effective hereunder during the respective periods such Unitized Substances were produced, as set forth in Exhibit "B". The amount of Unitized Substances so allocated to each tract, and only that amount, regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such tract shall, for all intents, uses, and purposes, be deemed to have been produced from such tract.

The Unitized Substances allocated to each tract shall be distributed among, or accounted for to the parties executing, consenting to, or ratifying this Agreement entitled to share in the production from such tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such tracts, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal force and effect.

Nothing herein contained shall be construed as retroactively affecting the ownership of, or as requiring any retroactive adjustment for, production of oil or gas obtained prior to the effective date of this Agreement, or prior to the effective date of the joinder of any tract, or the commitment of any interest hereto.

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

If any Working Interest or Royalty Interest in any tract is or becomes divided and owned in severalty as to different parts of the tract, the percentage participation attributable to such interest, in the absence of recordable instrument executed by the owners of the divided interest and furnished to the Unit Operator providing for a different division, shall be divided among the separate owners in proportion to the surface acres of their respective parts of the tracts.

The Unitized Substances allocated to each tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Such party shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided

the same are so constructed, maintained, and operated not to interfere with operations carried on pursuant hereto. Subject to Section 14 hereof, Royalty Settlement, any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the Unitized Substances from the Unit Area currently as and when produced, then so long and only so long, as such conditions continue, Unit Operator, for the account and at the expense of such party in order to avoid curtailing the operation of the Unit Area, may sell or itself purchase such production on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such party shall be charged therewith as having received the same. The proceeds, if any, of the Unitized Substances so disposed of by Unit Operator, shall be paid to the party entitled thereto; notwithstanding the foregoing Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days' notice of such intended sale.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all royalties, overriding royalties, oil payments, net profit contracts, and all payments out of or burdens on the lease or leases and tracts contributed by it and received into the Unit Area and each such party shall hold each other party hereto harmless against all claims, demands, and causes of action for such royalties, overriding royalties, oil payments, net profit contracts, and other payments out of or burdens on the lease or leases and tracts contributed by it to the Unit Area.

If, after the effective date of this Agreement, there is any tract or tracts that are subsequently committed hereto, as above provided in Section 3, Unit Area and Participation, or any tract or tracts within the Unit Area not effectively committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Section 29, Nonjoinder and Subsequent Joinder, or if any tract is excluded from the Unit Area as provided for in Section 28, Loss of Title, the schedule of participation as shown in Exhibit "B" shall be revised by the Working Interest Owners to show the new percentage participation of all of the then effectively committed tracts and the revised Exhibit "B", upon approval by the Commissioner under Section 28, Loss of Title, and Section 29, Nonjoinder and Subsequent Joinder, and upon application by the Commissioner under Section 2, Unit Area and Participation, shall govern the allocation of Unitized Substances from and after the effective date thereof until a new schedule is so approved.

13. ROYALTY SETTLEMENT: The State of New Mexico and all Royalty Owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, division orders, laws, and regulations, on or before the last day of each month for Unitized Substances prod-

uced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases, except that such royalties shall be computed in accordance with the terms of this Unit Agreement.

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

If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Land for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner, part or all of such liquefied petroleum gases, may be withdrawn royalty free pursuant to such conditions and formulas as may be prescribed or approved by the Commissioner.

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

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

14. OIL IN LEASE TANKS ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipe line connection, in such tanks as of 7:00 o'clock a.m. on the effective date hereof. All such oil which has been produced legally shall be and remain the property of the Working Interest Owners entitled thereto the same as if the Unit had not been formed; and such Working Interest Owners shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the applicable lease or leases and other contracts.

15. REPORTS: Unit Operator shall furnish the Commissioner, monthly, injection and production reports for each well in the Unit Area, as well as periodical reports of the development and operation of the Unit Area.

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

17. 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.

18. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from Unitized Formation by wells on land not subject to this Agreement.

19. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions, and provisions of all leases, subleases, Unit Agreements and other contracts relating to exploration, drilling, development, or operation for oil or gas of lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Commissioner shall, and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, or royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement. Without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

- (a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract subject to this Agreement, regardless of whether there is any development of any particular part or tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement, or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.
- (b) Drilling, producing, or secondary recovery operations performed hereunder upon any tract of unitized land will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.
- (c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioner, or his duly authorized representative, shall be deemed to consti-

tute such suspension pursuant to such direction or consent as to each and every tract of unitized lands.

- (d) Each lease, sublease, Unit Agreement, or contract relating to the exploration, drilling, development, or operation for oil and gas which by its terms might expire prior to the termination of this Agreement is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.
- (e) Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.
- (f) Any lease embracing lands of the State of New Mexico, which is made subject to this Agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.
- (g) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the land committed and as to the land not committed and the terms of such leases shall apply separately as to such segregated portions commencing as of the effective date hereof. Provided, however, that notwithstanding any of the provisions of this Agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been, discovered in paying quantities on some part of the lands embraced in such lease committed to this Agreement, or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

20. MATHEMATICAL ERRORS: It is hereby agreed by all parties to this Agreement that Unit Operator shall be empowered to correct any mathematical errors which might exist in the pertinent exhibits to this Agreement upon approval of the Commissioner.

21. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates and any grant,

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

22. EFFECTIVE DATE AND TERM: This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock a.m. on the first day of the calendar month next following:

- (a) The execution or ratification of this Agreement and the Unit Operating Agreement by Working Interest Owners owning a combined unit participation of at least eighty-five per cent (85%), and the execution or ratification of this Agreement by Royalty Owners owning a combined interest of at least seventy-five per cent (75%) of the Royalty Interest in the lands described in Section 3 of this Agreement;
- (b) The approval of this Agreement by the Commissioner and the Commission;
- (c) The filing of at least one counterpart of this Agreement for the record in the Records of Lea County, New Mexico, by Unit Operator; and provided further, that if (a), (b), and (c) are not accomplished on or before January 1, 1965, this Agreement shall ipso facto terminate on said date (hereinafter called "Termination date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined unit participation of at least ninety per cent (90%), and Working Interest Owners owning a combined unit participation of at least ninety per cent (90%) committed to this Agreement have decided to extend said termination date for a period not to exceed six (6) months. If said termination date is so extended and (a), (b), and (c) are not accomplished on or before said extended termination date, this Agreement shall ipso facto terminate on said extended termination date and thereafter be of no further force or effect. For the purpose of this section, ownership shall be computed on the basis of unit participation. Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for the record in the office or offices where a counterpart of this Agreement is recorded, a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date.

The term of this Agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as drilling, reworking, or other operations (including secondary recovery) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided. This Agreement may be terminated by Working Interest Owners of ninety per cent (90%) unit participation whenever such Working Interest Owners determine that unit operations are no longer profitable, feasible, or in the interest of conservation, with the approval of the Commission and the Commissioner. Notice of any such approval to be given by Unit Operator to all parties hereto.

Upon termination of this Agreement, the further development and operation of the Unit Area as a unit shall be abandoned, unit operations shall cease, and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate tracts just as if this Agreement had never been entered into.

If not otherwise covered by the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of three (3) months after termination of this Agreement in which to salvage, sell, distribute, or otherwise dispose of the personal property and facilities used in connection with unit operations.

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

24. APPEARANCES: Unit Operator shall, after notice to the other parties affected, have the right to appear for or 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 order issued under the regulations of said Commissioner, or Commission, or to apply for relief from any of said regulations or in any proceedings relative to operations before the said Commissioner, or Commission, or any other legally constituted authority, provided, however, that any other interested party shall also have the right, at his own expense, to be heard in any such proceedings.

25. 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 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.

26. NO WAIVER OF CERTAIN RIGHTS: Nothing contained in this Agreement shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

27. 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, acts of God, Federal, State, or municipal law or agencies, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

28. LOSS OF TITLE: In the event title to any tract of unitized land shall fail in whole or in part and the true owner cannot be induced to join this Unit Agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any Royalty, Working Interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided that as to State Land or leases, no payments of funds due the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Commissioner of Public Lands of the State of New Mexico, 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.

29. NONJOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a tract within the Unit Area fails or refuses to subscribe or consent in writing to this Agreement, the Working Interest Owner in that tract who has executed or ratified this Agreement may withdraw said tract from this Agreement by written notice to the Unit Operator, or such tract may be included in the Unit Area if the same can be and is qualified as provided in Section 11 hereof, Tracts Qualified for Unit Participation. Such withdrawal as above provided, shall, without further action, also operate to withdraw all Royalty Interest in such tract or tracts theretofore committed hereto. Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to submission of this Agreement to the Commissioner for final approval, may thereafter be committed hereto upon compliance with the applicable provisions of Section 11 hereof, at any time up to the effective date hereof and for a period of six (6) months thereafter, on the same basis of participation as provided for in Section 11 by the owner or owners thereof subscribing or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after six (6) months from the effective date hereof, the right of subsequent joinder as provided in this section

shall be subject to such requirements or approvals and on such basis as may be agreed upon by ninety per cent (90%) of the Working Interest Owners. Such joinder by a Royalty Owner must be evidenced by his execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may otherwise herein be provided, subsequent joinder to this Agreement shall be affective at 7:00 o'clock a.m. as of the first day of the month following the filing with the Commission and the Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this Agreement and approved by the Commissioner.

30. 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 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.

31. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the Unit Area; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of the Unitized Substances. No such taxes shall be charged to the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

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

WORKING INTEREST OWNERS

Name Date Signed

PHILLIPS PETROLEUM COMPANY

By _____
Vice President

Address _____

INDIVIDUAL

Address _____

Attest, if a Corporation or
Witness, if an Individual

ATTEST:

By _____
Assistant Secretary

WITNESS:

STATE OF _____
COUNTY OF _____

ss

CORPORATION ACKNOWLEDGEMENT

On this _____ day of _____, 1964, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal of office this _____ day of _____, 1964.

My Commission Expires: _____

Notary Public in and for said
County and State

STATE OF _____
COUNTY OF _____

ss

INDIVIDUAL ACKNOWLEDGEMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____.

My Commission Expires: _____

Notary Public in and for said
County and State

STATE OF _____
COUNTY OF _____

ss

JOINT ACKNOWLEDGEMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____ and _____ his wife.

My Commission Expires: _____

Notary Public in and for said
County and State

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

There has been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, an agreement for the development and operation of the Ranger Lake Unit Area, Lea County, New Mexico, dated March 1, 1964, in which Phillips Petroleum Company is designated as Operator, and which has been executed by various 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 conservation of oil and gas and the better utilization of reservoir energy in said field;
- (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 interests of the State;
- (d) That the agreement provides for the Unit operation of the field, for allocation of production and sharing of proceeds from the area covered by the agreement in accordance with a formula of the participation as specified in the agreement regardless of the particular tract from which production is obtained or proceeds are derived and for repressuring or secondary recovery operations.

NOW, THEREFORE, by virtue of the authority conferred upon me by virtue of the Laws of the State of New Mexico, 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 above referred to Ranger Lake Unit Agreement as to the lands of the State of New Mexico committed hereto, and all oil and gas leases embracing lands of the State of New Mexico committed to said agreement shall be and the same are hereby amended so that the provisions thereof will conform to the provisions of said Unit Agreement and so that the length of the secondary term of each such lease as to the lands within the Unit Area will be extended, insofar as is necessary, to coincide with the terms of said Unit Agreement and in the event the term of said Unit Agreement shall be extended as provided therein, such extension shall also be effective to extend the term of each oil and gas lease embracing lands of the State of New Mexico committed to said Unit Agreement which would otherwise expire, so as to coincide with the extended term of such Unit Agreement.

IN WITNESS WHEREOF, this Certificate of Approval is executed as of this
_____ day of _____, 1964.

Commissioner of Public Lands of the
State of New Mexico

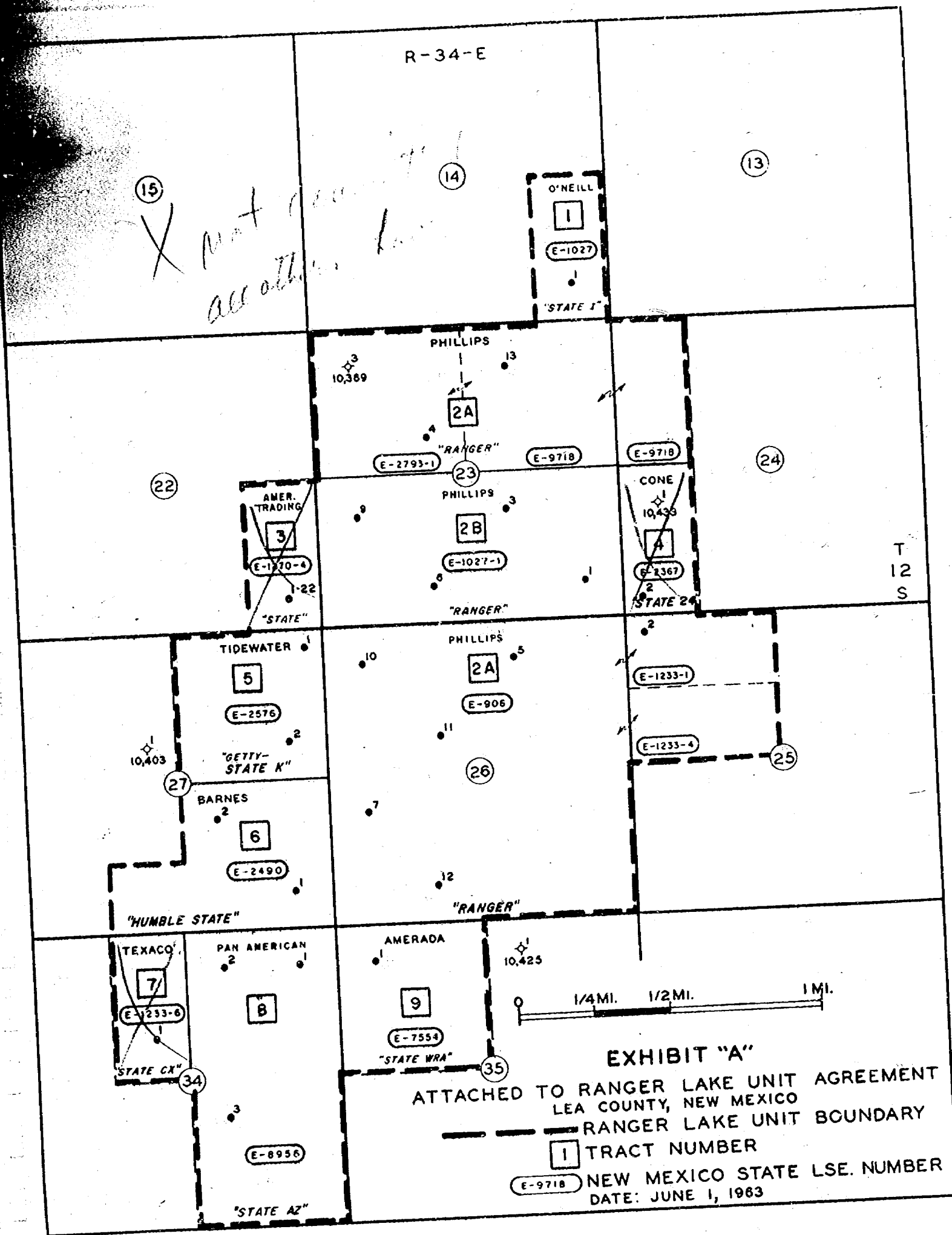


EXHIBIT B TO UNIT AGREEMENT
RANGER LAKE UNIT
LEA COUNTY, NEW MEXICO

Tract No.	Lease Name	Description of Land (all in Twp. 12S-33E, Lea County, New Mexico)	Number Acres	New Mexico State Lease No.	Basic Royalty	Lessee of Record	Overriding Royalty Owners and Amount	Working Interest Owners and Amount	Tract Participations in Unit		6-30-62 Shls. of Remaining Primary Oil			
									Primary	Secondary				
1	State "I"	E/2 SE/4 Sec. 1A	80	E-1027	10-10-45	12 1/2% State of N.M.	Vickers Pet. Co. Alco Oil & Gas Co. N. C. Dragalec, Trustee	15.40620 0.35540	Great Western Drilling Co. Alcoquin Investment Co. E. T. Anderson Richard T. Baker Edwina S. Brockaw Walter Duncan J. Walter Duncan, Jr. Vincent J. Duncan Raymond T. Duncan G. Wilmer Lundbeck Hunter S. Marston M. E. Murphy Joseph T. O'Neill, Jr. Est. of Edward L. Shea Peter L. Shea Total	50.00000 1.00000 0.80000 1.00000 2.53333 7.85000 2.33057 4.03700 1.68233 2.00000 1.00000 1.00000 17.90001 2.33333 2.53333 100.00000	0.35540 0.00708 0.00567 0.00708 0.01794 0.05559 0.01550 0.02859 0.02608 0.01415 0.00708 0.00708 0.12675 0.01652 0.01794 0.70815	0.22705 0.00434 0.00363 0.00454 0.01150 0.03565 0.01058 0.01834 0.01672 0.00908 0.00454 0.00454 0.08128 0.01060 0.01511 0.05410	2,972	
2-A	W. Ranger Unit	NE/4 Sec. 23 E/4 Sec. 23 and W/2 NE/4 Sec. 24 All of Sec. 26 1/2 E/4 Sec. 25 S/2 W/4 Sec. 25 W. Ranger Unit Agreement dated March 15, 1956, approved by N.M. Commissioner of Public Lands May 2, 1956	160 160 80 640 80 80	E-2793-1 E-2793-2 E-2793-3 E-905 E-1233-1 E-1233-4	7-11-49 1-17-56 1-17-56 5-2-56 5-2-56 5-2-56	12 1/2% State of N.M.	Caswell S. Keal Phillips Pet. Co. Phillips Pet. Co. Phillips Pet. Co. Ralph Kix Ralph Kix	Eva S. Keal Est. Thos. Wiley Keal III Ralph Kix	0.43175 0.14391 0.28783	Phillips Pet. Co. - Oper. Texas Pacific Oil Co. a Div. of Jos. E. Seagram & Sons, Inc. Total	57.89474 100.00000 42.10526 100.00000	23.61917 17.17728 40.79675	20.38323 14.82417 35.20740	197,790
2-B	W. Ranger Unit	S/2 Sec. 23	320	E-1027-1	10-10-45	12 1/2% State of N.M.	Vickers Pet. Co. John S. Wertz, J. A. Vickers Helen Vickers Springer & Geo. Stallwitz, Trustees of the J.A. Vickers Test. Trusts & various Vickers Tr. Estates Eva S. Keal Est. Thos. Wiley Keal III Ralph Kix	10.93750 0.43175 0.14391 0.28783	Phillips Pet. Co. - Oper. Texas Pacific Oil Co. a Div. of Jos. E. Seagram & Sons, Inc. Total	57.89474 100.00000 42.10526 100.00000	9.66651 7.03019 15.69670	13.44142 4.77556 23.21700	95,550	
3	State	E/2 SE/4 Sec. 22	80	E-1270-4 -59	4-21-59	12 1/2% State of N.M.	American Trading & Prod. Corp. Cabot Carbon Co.	None	Am. Tr. & Prod. Corp.-Op. Cabot Carbon Co. Total	50.00000 50.00000 100.00000	0 0 0	0.02970 0.02970 0.05940	0	

EXHIBIT B - Page 2

Tract No.	Lease Name	Description of Land	Number Acres	New Mexico State Lease No.	Basic Royalty	Lessee of Record	Overriding Royalty Owners and Amount	Working Interest Owners and Amount	in Unit		Remaining Primary Oil	
									Primary	Secondary		
4	State "24"	W/2 SW/4 Sec. 24	80	E-2367 1-10-59	12 1/2% State of N.M.	Gordon M. Cone	None	Gordon M. Cone, Oper. J. U. Cone, Trustee 10% Douglas Cone Trust 10% Clifford Cone Trust 10% Thomas Cone Trust 10% Cathie Cone Trust 10% Kenneth Cone Trust J. U. Cone, Trustee 5% J. E. Bob Cone Trust 5% Jesse Cone Trust 5% Howard Cone Trust 5% Terry Cone Trust 5% Mary Cone Trust Roy G. Burton C. R. McFar Carmon J. Stafford Total	12.50000 50.00000 25.00000 6.25000 3.12500 3.12500 100.00000	0.08625 0.34500 0.17250 0.04313 0.02156 0.02156 0.69000	0.35652 1.42610 0.71306 0.17826 0.08913 0.08913 2.85220	3,022
5	State "K"	NE/4 Sec. 27	160	E-2576 4-27-49	12 1/2% State of N.M.	Getty Oil Co. & Mission Corp.	None	Getty Oil (Tidewater-Oper.) Mission Corp. Total	50.00000 50.00000 100.00000	2.40020 2.40020 4.80040	2.90115 2.90115 5.80230	28,423
6	Humble State	SE/4 & SW/4 SW/4 Sec. 27	200	E-2690 3-10-49	12 1/2% State of N.M.	J. C. Barnes Oil Co. Humble Oil & Ref. Co.	Humble Oil & Ref. Co. 12.50000	J. C. Barnes, Oper. J. C. Barnes, Jr. R. J. Basland W. F. Wynn Howard P. Holmes Freeport Oil Co. Geo. Stillwagon Geo. Stillwagon Trust Total	14.06250 14.06250 14.06250 14.06250 12.50000 25.00000 3.12500 3.12500 200.00000	0.37127 0.37127 0.66348 0.66348 0.33002 0.66005 0.08250 0.08250 2.64015	0.66348 0.66348 0.66348 0.66348 0.58776 1.17952 0.14745 0.14745 4.71810	10,040
7	State of New Mexico "C"	E/2 NW/4 Sec. 34	80	E-1233-6 3-10-47	12 1/2% State of N.M.	Ralph Kix	Ralph Kix & wife, Francis Kix 5.46875	Yenaco Inc. -Oper. Sunray Oil Co. Total	50.00000 50.00000 100.00000	3.29002 3.29003 6.58005	1.83675 1.83675 3.67350	29,630
8	State of N.M. "AZ"	E/2 Sec. 34	320	E-8956 4-19-55	12 1/2% State of N.M.	Stanolind Oil & Gas Co. -now Pan American Pet. Corp. H. C. Hood	None	Pan American Pet. Corp-Oper. Total	100.00000 100.00000	19.11920 19.11920	17.41910 17.41910	71,988
9	State WR - "A"	NW/4 Sec. 35	160	E-7554 Assigned 7-15-54 Approved by N.M. Comm. 7-26-54	12 1/2% State of N.M.	None	None	Amerasia Pet. Corp. -Oper. Total	100.00000 100.00000	7.96860 7.96860	6.59690 6.59690	42,156
TOTAL			2680						100.00000	100.00000	477,871	

UNIT OPERATING AGREEMENT

RANGER LAKE UNIT

LEA COUNTY, NEW MEXICO

UNIT OPERATING AGREEMENT

RANGER LAKE UNIT

LEA COUNTY, NEW MEXICO

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EXHIBITS

- Exhibit "C": Unit Participation
- Exhibit "D": Accounting Procedure

UNIT OPERATING AGREEMENT

RANGER LAKE UNIT

LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of March, 1964, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H :

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

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement.

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

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

2.2 Revision of Exhibits. Whenever Exhibits A and B are revised, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

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

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

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

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

3.2.4 Expenditures. The making of any single expenditure in excess of Fifteen Thousand Dollars (\$15,000); provided that, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is Two Thousand Five Hundred Dollars (\$2,500) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided that, such designation

shall not prevent any Working Interest Owner from appearing in person at its own expense or from designating another representative in its own behalf.

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

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator,
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator unless such audit is conducted at the specific instance and request of the Unit Operator, in which latter event the same shall be made at the expense of all Working Interest Owners including Working Interest Owner designated as Unit Operator, and
- (c) be made upon not less than thirty (30) days' written notice to Unit Operator.

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

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

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

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

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Secondary Participation of not less than ten per cent (10%). No meeting shall be called on less than fourteen (14) days' advance written

notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

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

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

4.3.2 Vote Required - Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of sixty per cent (60%) or more voting interest; provided that, should any one Working Interest Owner have more than forty per cent (40%) voting interest, its vote must be supported by the vote of two or more Working Interest Owners having a combined voting interest of at least ten per cent (10%).

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

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

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

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

be charged to the Working Interest Owner who requests the information.

ARTICLE 6

UNIT OPERATOR

6.1 Initial Unit Operator. Phillips Petroleum Company is hereby designated as Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time. Working Interest Owners may remove Unit Operator at any time by the affirmative vote of at least eighty-five per cent (85%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of three (3) months after the resignation or discharge, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of at least eighty-five per cent (85%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

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

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

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

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

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations.

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Fifteen Thousand Dollars (\$15,000) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

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

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Unit Operator shall, beginning in the first calendar year after the effective date of the unit, make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; provided that, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

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

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator shall with respect to Unit Operations purchase or provide for the benefit of the joint account protection comparable to that afforded under standard form policies of insurance as follows:

9.1.1 Workmen's Compensation Insurance as required by the laws of the State of New Mexico.

9.1.2 Employer's Liability Insurance with a limit of \$25,000 for any one employee.

9.1.3 Public Liability Insurance, both bodily injury and death, with limits of not less than \$100,000 as to any one person, and \$200,000 as to any one accident, and Property Damage Liability Insurance with a limit of not less than \$50,000 per accident with the exception of the first \$5,000 property damage in any one accident.

9.1.4 Automobile Public Liability Insurance with bodily injury limits of not less than \$100,000 as to any one person and \$200,000 as to any one accident, and Automotive Property Damage Insurance with a limit of not less than \$50,000 as to any one accident.

9.2 Charges for Insurance and Losses. The premiums paid for insurance provided pursuant to Sections 9.1.1, 9.1.2 and 9.1.3 shall be charged to the joint account; provided that, if the Unit Operator elects to otherwise provide the equivalent protection it may charge the joint account with an amount equal to the premium charges at the prevailing rates for the protection so provided. The charge for the protection provided pursuant to Section 9.1.4 shall be included in the automotive rates charged to the joint account pursuant to Exhibit D.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells and Casing. All wells completed in the Unitized Formation, together with the casing therein.

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

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate in accordance with the provisions of Exhibit D the personal property taken over. Such inventories shall include and be limited to those items of equipment normally considered controllable by operators of oil and gas properties as indicated in the "Materials Classification Manual", revised 1960, prepared by the Petroleum Accountants Society of Oklahoma, except that certain items normally considered non-controllable, such as sucker rods, Kobe tubing of sizes less than two inches (2"), bottom hole pumps, and other items as agreed upon by the Working Interest Owners may be included on the inventories in order to insure

a more equitable adjustment of investments. All other non-controllable items of lease and well equipment installed within the Unit Area and required in unit operations, although excluded from the inventories, shall nevertheless be taken over by the Unit Operator. Casing shall be included in the inventory for record purposes but shall be excluded from pricing and investment adjustment.

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

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

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

10.6 Adjustment for Nonusable Wells. All wells delivered to the Unit Operator shall be in usable physical condition on the Effective Date. If any such well is determined by the Working Interest Owners to be in nonusable physical condition, the cost of placing such well in usable physical condition shall be charged to the Working Interest Owners owning such well immediately prior to the Effective Date. The amount of such charge shall in all respects be treated as any other item of Unit Expense chargeable against such Working Interest Owners.

ARTICLE 11

UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development, operation and supervision of the Unit Area. Working Interest Owners shall reimburse Unit Operator for all such costs and expenses, in proportion to their respective Unit Participation shown on Exhibit "C" in effect at the time said costs and expenses were incurred, except that all charges, including installation costs, for equipment, additions and enlargements of existing facilities, other than normal replacements, shall be based on the Secondary Participation as shown in Exhibit "C". It is specifically agreed that all charges relating to conversion of wells for injection purposes, enlargement of lift equipment and construction of plant and plant facilities shall be based on Secondary Participation as specified in Exhibit "C". All

charges, credits and accounting for costs and expenses shall be in accordance with Exhibit "D".

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

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

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

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in Each Tract, its share of Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of Unit Expense, together with interest thereon at the rate of six per cent (6%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default.

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

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective applicable Unit Participations; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

ARTICLE 12

NON-UNITIZED FORMATIONS

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

12.2 Multiple Completions. No well shall be multiply completed to produce from the Unitized Formation and any other formation within the Unit Area.

ARTICLE 13

TITLES

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

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

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

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

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Twenty-Five Hundred Dollars (\$2,500) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15

INTERNAL REVENUE PROVISION

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

ARTICLE 16

NOTICES

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

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights together with its interest in all Unit Equipment and in all wells used in Unit Operations. Such transfer shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the transfer, which delivery may be made to Unit Operator as Agent for the transferees. The interest transferred shall be owned by the transferees in proportion to their respective Unit Secondary Participations. The transferees shall not pay transferor for its interest in Unit Equipment. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

ARTICLE 18

ABANDONMENT OF WELLS

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

The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

ARTICLE 19

EFFECTIVE DATE AND TERM

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

19.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been

abandoned and plugged or turned over to Working Interest Owners in accordance with Article 20, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

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

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

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

20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned properly.

20.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operation in proportion to their respective Unit Secondary Participations.

ARTICLE 21

EXECUTION

21.1 Original, Counterpart, or Other Instrument. A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

ARTICLE 22

SUCCESSORS AND ASSIGNS

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

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

WORKING INTEREST OWNERS

Name
PHILLIPS PETROLEUM COMPANY

Date Signed

Attest, If a Corporation or
Witness, If an Individual

ATTEST:

By _____
Vice President

By _____
Assistant Secretary

WITNESS:

STATE OF _____

COUNTY OF _____

ss

CORPORATION ACKNOWLEDGMENT

On this _____ day of _____, 1964, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation, and that of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal of office this _____ day of _____, 1964.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____

COUNTY OF _____

ss

JOINT ACKNOWLEDGMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____ and _____ his wife.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____ }
COUNTY OF _____ }

ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____ }
COUNTY OF _____ }

ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____ }
COUNTY OF _____ }

ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____.

My Commission Expires:

Notary Public in and for said
County and State

EXHIBIT "C"

TO UNIT OPERATING AGREEMENT

RANGER LAKE UNIT

LEA COUNTY, NEW MEXICO

SUMMARY OF WORKING INTEREST OWNERSHIP BY INDIVIDUALS AND COMPANIES

Working Interest Owner	Tract No.	Percent Working Interest	Tract Per Cent Participation		Working Interest Owners % Participation in Unit	
			Primary	Secondary	Primary	Secondary
Algonquin Investment Co.	1	1.00000	0.70815	0.45410	0.00708	0.00454
Amerada Petroleum Corp.	9	100.00000	7.96860	6.59690	7.96860	6.59690
American Prod. & Prod. Co.	3	50.00000	0	0.05940	0	0.02970
Anderson, E. T.	1	0.80000	0.70815	0.45410	0.00567	0.00363
Barnes, J. C.	6	14.06250	2.64015	4.71810	0.37127	0.66348
Barnes, J. C., Jr.	6	14.06250	2.64015	4.71810	0.37127	0.66348
Baker, Richard T.	1	1.00000	0.70815	0.45410	0.00708	0.00454
Barton, Roy G.	4	6.25000	0.69000	2.85220	0.04313	0.17826
Brokaw, Edwina S.	1	2.53333	0.70815	0.45410	0.01794	0.01150
Cabot Carbon Co.	3	50.00000	0	0.05940	0	0.02970
Cone, Gordon M.	4	12.50000	0.69000	2.85220	0.08625	0.35652
Cone, J. U., Trustee	4	75.00000	0.69000	2.85220	0.51750	2.13916
Duncan, Raymond T.	1	3.68233	0.70815	0.45410	0.02608	0.01672
Duncan, Vincent J.	1	4.03700	0.70815	0.45410	0.02859	0.01834
Duncan, Walter	1	7.85000	0.70815	0.45410	0.05559	0.03565
Duncan, J. Walter, Jr.	1	2.33067	0.70815	0.45410	0.01650	0.01058
Freeport Oil Co.	6	25.00000	2.64015	4.71810	0.66005	1.17952
Getty Oil Co.	5	50.00000	4.80040	5.80230	2.40020	2.90115
Great Western Drlg. Co.	1	50.00000	0.70815	0.45410	0.35408	0.22705
Holmes, Howard P.	6	12.50000	2.64015	4.71810	0.33002	0.58976
Lundbeck, G. Hilmer, Jr.	1	2.00000	0.70815	0.45410	0.01416	0.00908
Marston, Hunter S.	1	1.00000	0.70815	0.45410	0.00708	0.00454

EXHIBIT "C"
Summary of Working Interest Ownership
By Individuals and Companies
Ranger Lake Unit
Page 2.

Working Interest Owner	Tract No.	Percent Working Interest	Tract Per Cent Participation		Working Interest Owners % Participation in Unit	
			Primary	Secondary	Primary	Secondary
Mission Corporation	5	50.00000	4.80040	5.80230	2.40020	2.90115
McVay, C. R.	4	3.12500	0.69000	2.85220	0.02156	0.08913
Murphy, M. E.	1	1.00000	0.70815	0.45410	0.00708	0.00454
O'Neill, Joseph I., Jr.	1	17.90001	0.70815	0.45410	0.12676	0.08128
Pan American Pet. Corp.	8	100.00000	19.11920	17.41910	19.11920	17.41910
Phillips Petroleum Co.	2-A	57.89474	40.79675	35.20740	23.61917	20.38323
Phillips Petroleum Co.	2-B	57.89474	16.69670	23.21700	9.66651	13.44142
Ramsland, R. J.	6	14.06250	2.64015	4.71810	0.37127	0.66348
Shea, Edward L., Estate	1	2.33333	0.70815	0.45410	0.01652	0.01060
Shea, Peter L.	1	2.53333	0.70815	0.45410	0.01794	0.01151
Stafford, Carmon J.	4	3.12500	0.69000	2.85220	0.02156	0.08913
Stillwagon, Geo.	6	3.12500	2.64015	4.71810	0.08250	0.14745
Stillwagon Trust., Geo.	6	3.12500	2.64015	4.71810	0.08250	0.14745
Sunray DX Oil Co.	7	50.00000	6.58005	3.67350	3.29003	1.83675
Texaco Inc.	7	50.00000	6.58005	3.67350	3.29002	1.83675
Texas Pacific Oil Co., a Div. of Jos. E. Seagram & Sons, Inc.	2-A	42.10526	40.79675	35.20740	17.17758	14.82417
Texas Pacific Oil Co., a Div. of Jos. E. Seagram & Sons, Inc.	2-B	42.10526	16.69670	23.21700	7.03019	9.77558
Wynn, W. F.	6	14.06250	2.64015	4.71810	0.37127	0.66348
Total					100.00000	100.00000

EXHIBIT " D "

Attached to and made a part of UNIT OPERATING AGREEMENT
RANGER LAKE UNIT
Lea County, New Mexico

ACCOUNTING PROCEDURE (JOINT OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

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

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

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

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

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

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

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

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C 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. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator 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.

6. Adjustments

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

7. 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, the making of an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**
Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.
2. **Labor**
 - A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.
 - B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
 - C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
 - D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employer's practice is in accordance with usual practice.
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 however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
4. **Material**
Material purchased or furnished by Operator for use on 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 and Material necessary for the Joint Operations but subject to the following limitations:
 - A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
 - B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
 - C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.
6. **Services**
 - A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
 - B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.
7. **Damages and Losses to Joint Property**
All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. **Legal Expense**
All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. **Taxes**
All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.
10. **Insurance Premiums**
Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.
11. **Other Expenditures**
Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a

fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

☐ Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)

☒ Paragraph 4. (Combined fixed rate)

1. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages 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 sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
.....
.....
.....

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. Operator's Fully Owned Warehouse Operating and Maintenance Expense
(Describe fully the agreed procedure to be followed by the Operator.)

4. Combined Fixed Rates

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
All depths	650	105	95	85

Said fixed rate ~~(which)~~ (shall not) include salaries and expenses of production foremen.

5. Application of Administrative Overhead or Combined Fixed Rates

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

(1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding

- operations and salt water disposal wells shall be considered the same as producing wells.
- (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
 - (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
 - (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
 - (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
 - (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
- C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
 - D. The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.
6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:
 - A. Total cost less than \$25,000, no charge.
 - B. Total cost more than \$25,000 but less than \$100,000, 3 % of total cost.
 - C. Total cost of \$100,000 or more, 3 % of the first \$100,000 plus 1 % of all over \$100,000 of total cost.
 Total cost shall mean the total gross cost of any one project. For the purpose of this Paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.
 7. The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. Purchases

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

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (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 classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.
- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV because of

national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

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

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall 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 Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

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

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

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall 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-Operators

Material purchased by either the Operator or Non-Operators 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-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator 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 claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, 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 Account as secondhand at seventy-five percent (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. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

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

5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. Junk Material

Junk Material (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 Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, 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.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

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. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to be taken so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. 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 whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

**UNIT AGREEMENT
and
UNIT OPERATING AGREEMENT**

**RANGER LAKE UNIT
Lea County, New Mexico**

BEFORE EXAMINER NUTTER
NEW MEXICO CONSERVATION COMMISSION
Phillip EXHIBIT NO. 3
CASE NO. 3088

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE

RANGER LAKE UNIT

RANGER LAKE FIELD

LEA COUNTY, NEW MEXICO

UNIT AGREEMENT
RANGER LAKE UNIT
LEA COUNTY, NEW MEXICO

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Exhibits

Exhibit "A": Map of Unit Area

Exhibit "B": Leasehold Information With Working
Interest Participations

Certificate of Approval - State of New Mexico

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
RANGER LAKE UNIT
RANGER LAKE FIELD
LEA COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 1st day of March, 1964, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as "parties hereto",

W I T N E S S E T H:

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 (Section 3, Chapter 88, Laws 1943 as amended by Section 1 of Chapter 162, Laws of 1951) to consent to or approve this Agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 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 terms of the unitized development and operation of State lands; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chapter 72, Laws of 1935, as amended by Chapter 193, Laws of 1937, Chapter 166, Laws of 1951, and Chapter 168, Laws of 1949) to approve this Agreement, and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Unit Area subject to this Agreement to give reasonable effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, to conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the Unit Area subject to this Agreement under the terms, conditions, and limitations herein set forth.

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

1. DEFINITIONS: For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

- (a) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells completed in the Unitized Formation.
- (d) "Productive Acreage" is defined as and shall mean the acreage reasonably proven to be productive of Unitized Substances from the Unitized Formation.
- (e) "Remaining Primary Production" is defined as and shall be all oil produced from the Unitized Formation from July 1, 1962, until 7:00 o'clock a.m. the first day of the calendar month after 477,871 barrels of oil have been produced from the Unitized Formation. The above Remaining Primary Production is predicated upon 100 per cent commitment of the hereinabove described lands as constituting the Unit Area, and shall be subject to correction to coincide with the Remaining Primary Production of the unitized portion of the reservoir, in event of noncommitment of any tract.
- (f) "Royalty Interest" means a right to or interest in any portion of the Unitized Substances or proceeds thereof other than Working Interest.
- (g) "Royalty Owner" means a party hereto who owns a Royalty Interest.
- (h) "Secondary Production" is defined as and shall be all oil produced from the Unitized Formation after the Remaining Primary Production has been produced.
- (i) "Unitized Formation" is defined as and shall mean that heretofore established underground reservoir, underlying Unit Area and commonly known as the Ranger Lake zone of the Pennsylvanian Formation, being further identified as the producing formation found in Phillips Petroleum Company's Ranger Unit No. 1 well located in the SE/4 SE/4, Section 23-T12S-R34E, Lea County, New Mexico between the depths of 6080 feet and 6230 feet below sea level.
- (j) "Unitized Substances" is defined as and shall mean all of the oil and gas contained in or produced from the Unitized Formation.
- (k) "Unitized Land" or "land subject to this Agreement" is defined as and shall mean those lands within the Unit Area which are committed to this Agreement.

- (l) "Unit Manager" is defined as the person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8 hereof.
- (m) "Unit Operating Agreement" is defined as and shall mean the Agreement entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 9, entitled, "Unit Operating Agreement, Ranger Lake Unit, Lea County, New Mexico", or any amendment or supplement thereto.
- (n) "Usable Well" is defined as a well which has been drilled in the Unit Area to the depth of the Unitized Formation and has casing in the hole in condition for use as either a producing well or an injection well, and on which well there has been filed with the State of New Mexico, on or before the effective date of this Agreement, a well record and Completion Report (Form C-105) or Request for Oil Allowable (Form C-104) and which well has produced some oil from the Unitized Formation and has had an allowable granted for it by the Oil Conservation Commission of the State of New Mexico.
- (o) "Working Interest" means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing, and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (p) "Working Interest Owner" means a party hereto who owns a Working Interest. The owner of oil and gas rights that are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

2. UNIT AREA AND PARTICIPATION: The following described land is hereby designated and recognized as constituting the Unit Area as to which this Agreement becomes effective, to wit:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

T. 12S, R. 34E

Section 14:	E/2 SE/4	Section 27:	E/2 and SE/4 SW/4
22:	E/2 SE/4	34:	E/2 and E/2 NW/4
23:	All	35:	NW/4
24:	W/2 NW/4 & W/2 SW/4		
25:	NW/4		
26:	All		

Situated in Lea County, New Mexico, containing 2,680 acres, more or less, and such additional lands to which this Agreement may be extended, all as herein provided.

Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage comprising each tract, percentage ownership of each Working Interest Owner in each tract, number of wells on each tract and the percentages of participation, both primary and secondary, as well as the Remaining Primary Production of each tract in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. 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. Two copies of such revision shall be filed with the Commissioner.

The above described Unit Area may, when practicable, be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this Agreement. Such expansion shall be effected in the following manner:

- (a) The owner or owners of the Working Interest in and to a tract or tracts desiring to bring such tract or tracts into the Unit Area, shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the unit participation to be assigned to such tract or tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having ninety per cent (90%) of the Working Interest in the Unit Area agree to such tract or tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner,
 - (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional tract or tracts, the unit participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the day of notice; and
 - (2) Deliver copies of said notice to the Commissioner, each Working Interest Owner (mailing copy of such notice to the last known address of each such Working Interest Owner) and to the lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such

proposed expansions; and

- (3) File, upon the expiration of said thirty (30) day period as set out in Item 2 immediately above, with the Commissioner the following: (a) evidence of mailing copies of said notice of expansion; (b) an application for such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirement of Section 31, "Nonjoinder and Subsequent Joinder", infra; and (d) copy of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner, become effective as of the date prescribed in the notice thereof.

3. UNITIZED SUBSTANCES AND RIGHTS: All oil and gas in or that may be produced from the Unitized Formation underlying the lands subject to this Agreement, together with the right to use the surface of said lands for the development and operation of the Unitized Formation are unitized under the terms of this Agreement. Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas, and other minerals contained in or that may be produced from any formation other than the Pennsylvanian Formation, as above described.

4. UNIT OPERATOR: Phillips Petroleum Company, Bartlesville, Oklahoma, is hereby designated as Unit Operator and by signing this instrument as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the operation and development of the Unitized Formation for the 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.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after notice of intention to resign has been served by Unit Operator on all Working Interest Owners and the Commissioner, and until all wells then subject hereto are placed in a satisfactory condition for suspension or abandonment, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may be subject to removal by eighty-five per cent (85%) of the committed Working Interests on the basis of unit participation, in effect at the time, exclusive of the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

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

The resignation or removal of Unit Operator, under this Agreement, shall not terminate its right, title, or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, appurtenances, and any other assets, used in conducting the unit operations and owned by the Working Interest Owners to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator by a majority of the Working Interests on the basis of unit participation, provided no Unit Operator who has been removed may vote for self succession. 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 or Unit Manager is selected and qualified as herein provided, the Commissioner, at his election, may declare this Unit Agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: Costs and expenses incurred by Unit Operator, in conducting unit operations hereunder, shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the agreement or agreements entered into (separately or collectively) by and between the Working Interest Owners. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this section shall be filed with the Commissioner prior to approval of this Agreement.

8. 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.

9. PLAN OF OPERATIONS: It is recognized and agreed, by the parties hereto, that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect the greatest recovery of Unitized Substances, prevent waste, and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, and any one or more other substances whether produced from the Unit Area or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. Subject to like approval, the plan of operations may be revised as conditions may warrant. The initial plan of operation shall be filed with the Commissioner concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Commissioner may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

10. TRACT PARTICIPATION: The primary and secondary Tract Participation of each Tract are shown on Exhibit B. The primary Tract Participation shall be the effective Tract Participations until 7:00 A.M. the first day of the month following the time when the total oil produced and saved from the Unitized Formation after June 30, 1962 equals the total of the remaining primary oil attributable to all Tracts in the Unit Area as shown on Exhibit B, which, if all the Tracts shown on Exhibit B qualify for inclusion in the Unit Area, amounts to four hundred seventy-seven thousand eight hundred seventy-one (477,871) barrels. Thereafter, the secondary Tract Participations shall be the effective Tract Participations. In the event all of the Tracts shown on Exhibit B do not qualify for inclusion in the Unit Area, the total amount of remaining primary oil to be produced from the Unitized Formation before the secondary Tract Participations become effective shall be reduced by the amount of the remaining primary oil attributable to the Tracts that do not qualify as shown on Exhibit B.

The primary and secondary Tract Participations shown in Exhibit B were determined in accordance with the following formulas:

(a) Primary Participation Formula

Tract Oil Production for the six (6)
50% months prior to July, 1962
Sum of Oil Production from all Tracts
in Unit Area for the six months prior to July, 1962

plus

Tract Remaining Primary Oil Production
50% Subsequent to June 30, 1963 — 1962
Sum of Remaining Primary Oil Production
from all Tracts in Unit Area

(b) Secondary Participation Formula

Tract Ultimate Primary Oil Production
Sum of Ultimate Primary Oil Production from all Tracts

If the Unit Area is enlarged or reduced, the revised Tract Participations of the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another.

11. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof and until the enlargement or reduction thereof, the Unit Area shall be composed of the tracts listed in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public highway or railroad right of way shall be considered to have a common boundary), and that otherwise qualify as follows:

- (a) Each tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest in said tract have signed or ratified this Agreement and the Unit Operating Agreement and as to which Royalty Owners owning one hundred per cent (100%) of the Royalty Interest in said tract have signed or ratified this Agreement; and
- (b) Each tract as to which Working Interest Owners owning not less than ninety-five per cent (95%) of the Working Interest in said tract have signed or ratified this Agreement and the Unit Operating Agreement and as to which Royalty Owners owning not less than seventy-five per cent (75%) of the Royalty Interest in said tract have signed or ratified this Agreement, and in which the Working Interest Owners in said tract who have signed or ratified this Agreement and Unit Operating Agreement have agreed to indemnify and hold harmless all other parties hereto, in a manner satisfactory to the Working Interest Owners qualified under (a), against any or all claims and demands that may be made by the nonjoining owners of working or royalty interests on account of the inclusion of such tract in the Unit Area and the operation of the Unit Area on the basis herein provided, and as to which eighty-five per cent (85%) of the Working Interest Owners qualified under (a), exclusive of the Working Interest Owner submitting such tract, have approved the inclusion of such tract in the Unit Area.

If, on the effective date of this Agreement, there is any tract or tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such tract or tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Commissioner, file therewith a schedule of those tracts

which have been committed and made subject to this Agreement and are entitled to participate in the production from the Unit Area hereunder. Said schedule shall set forth opposite each such committed tract, the lease number, assignment number, the owner of record and percentage participation of such tract which shall be computed according to the participation formula set out above. This schedule shall become revised Exhibit "B" and upon approval thereof by the Commissioner, shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is filed and approved by the Commissioner.

12. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices within the Unit Area for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the several tracts within the Unit Area in accordance with the respective tract participation effective hereunder during the respective periods such Unitized Substances were produced, as set forth in Exhibit "B". The amount of Unitized Substances so allocated to each tract, and only that amount, regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such tract shall, for all intents, uses, and purposes, be deemed to have been produced from such tract.

The Unitized Substances allocated to each tract shall be distributed among, or accounted for to the parties executing, consenting to, or ratifying this Agreement entitled to share in the production from such tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such tracts, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal force and effect.

Nothing herein contained shall be construed as retroactively affecting the ownership of, or as requiring any retroactive adjustment for, production of oil or gas obtained prior to the effective date of this Agreement, or prior to the effective date of the joinder of any tract, or the commitment of any interest hereto.

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

If any Working Interest or Royalty Interest in any tract is or becomes divided and owned in severalty as to different parts of the tract, the percentage participation attributable to such interest, in the absence of recordable instrument executed by the owners of the divided interest and furnished to the Unit Operator providing for a different division, shall be divided among the separate owners in proportion to the surface acres of their respective parts of the tracts.

The Unitized Substances allocated to each tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Such party shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided

the same are so constructed, maintained, and operated not to interfere with operations carried on pursuant hereto. Subject to Section 14 hereof, Royalty Settlement, any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the Unitized Substances from the Unit Area currently as and when produced, then so long and only so long, as such conditions continue, Unit Operator, for the account and at the expense of such party in order to avoid curtailing the operation of the Unit Area, may sell or itself purchase such production on a day-to-day basis at not less than the prevailing market price in the area for like production; and the account of such party shall be charged therewith as having received the same. The proceeds, if any, of the Unitized Substances so disposed of by Unit Operator, shall be paid to the party entitled thereto; notwithstanding the foregoing Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days' notice of such intended sale.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all royalties, overriding royalties, oil payments, net profit contracts, and all payments out of or burdens on the lease or leases and tracts contributed by it and received into the Unit Area and each such party shall hold each other party hereto harmless against all claims, demands, and causes of action for such royalties, overriding royalties, oil payments, net profit contracts, and other payments out of or burdens on the lease or leases and tracts contributed by it to the Unit Area.

If, after the effective date of this Agreement, there is any tract or tracts that are subsequently committed hereto, as above provided in Section 3, Unit Area and Participation, or any tract or tracts within the Unit Area not effectively committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Section 29, Nonjoinder and Subsequent Joinder, or if any tract is excluded from the Unit Area as provided for in Section 28, Loss of Title, the schedule of participation as shown in Exhibit "B" shall be revised by the Working Interest Owners to show the new percentage participation of all of the then effectively committed tracts and the revised Exhibit "B", upon approval by the Commissioner under Section 28, Loss of Title, and Section 29, Nonjoinder and Subsequent Joinder, and upon application by the Commissioner under Section 2, Unit Area and Participation, shall govern the allocation of Unitized Substances from and after the effective date thereof until a new schedule is so approved.

13. ROYALTY SETTLEMENT: The State of New Mexico and all Royalty Owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, division orders, laws, and regulations, on or before the last day of each month for Unitized Substances prod-

uced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases, except that such royalties shall be computed in accordance with the terms of this Unit Agreement.

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

If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Land for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner, part or all of such liquefied petroleum gases, may be withdrawn royalty free pursuant to such conditions and formulas as may be prescribed or approved by the Commissioner.

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

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

14. OIL IN LEASE TANKS ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipe line connection, in such tanks as of 7:00 o'clock a.m. on the effective date hereof. All such oil which has been produced legally shall be and remain the property of the Working Interest Owners entitled thereto the same as if the Unit had not been formed; and such Working Interest Owners shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the applicable lease or leases and other contracts.

15. REPORTS: Unit Operator shall furnish the Commissioner, monthly, injection and production reports for each well in the Unit Area, as well as periodical reports of the development and operation of the Unit Area.

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

17. 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.

18. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from Unitized Formation by wells on land not subject to this Agreement.

19. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions, and provisions of all leases, subleases, Unit Agreements and other contracts relating to exploration, drilling, development, or operation for oil or gas of lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Commissioner shall, and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, or royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement. Without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

- (a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract subject to this Agreement, regardless of whether there is any development of any particular part or tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement, or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.
- (b) Drilling, producing, or secondary recovery operations performed hereunder upon any tract of unitized land will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.
- (c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioner, or his duly authorized representative, shall be deemed to consti-

tute such suspension pursuant to such direction or consent as to each and every tract of unitized lands.

- (d) Each lease, sublease, Unit Agreement, or contract relating to the exploration, drilling, development, or operation for oil and gas which by its terms might expire prior to the termination of this Agreement is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.
- (e) Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.
- (f) Any lease embracing lands of the State of New Mexico, which is made subject to this Agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.
- (g) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the land committed and as to the land not committed and the terms of such leases shall apply separately as to such segregated portions commencing as of the effective date hereof. Provided, however, that notwithstanding any of the provisions of this Agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been, discovered in paying quantities on some part of the lands embraced in such lease committed to this Agreement, or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

20. MATHEMATICAL ERRORS: It is hereby agreed by all parties to this Agreement that Unit Operator shall be empowered to correct any mathematical errors which might exist in the pertinent exhibits to this Agreement upon approval of the Commissioner.

21. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates and any grant,

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

22. EFFECTIVE DATE AND TERM: This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock a.m. on the first day of the calendar month next following:

- (a) The execution or ratification of this Agreement and the Unit Operating Agreement by Working Interest Owners owning a combined unit participation of at least eighty-five per cent (85%), and the execution or ratification of this Agreement by Royalty Owners owning a combined interest of at least seventy-five per cent (75%) of the Royalty Interest in the lands described in Section 3 of this Agreement;
- (b) The approval of this Agreement by the Commissioner and the Commission;
- (c) The filing of at least one counterpart of this Agreement for the record in the Records of Lea County, New Mexico, by Unit Operator; and provided further, that if (a), (b), and (c) are not accomplished on or before January 1, 1965, this Agreement shall ipso facto terminate on said date (hereinafter called "Termination date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined unit participation of at least ninety per cent (90%), and Working Interest Owners owning a combined unit participation of at least ninety per cent (90%) committed to this Agreement have decided to extend said termination date for a period not to exceed six (6) months. If said termination date is so extended and (a), (b), and (c) are not accomplished on or before said extended termination date, this Agreement shall ipso facto terminate on said extended termination date and thereafter be of no further force or effect. For the purpose of this section, ownership shall be computed on the basis of unit participation. Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for the record in the office or offices where a counterpart of this Agreement is recorded, a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date.

The term of this Agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as drilling, reworking, or other operations (including secondary recovery) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided. This Agreement may be terminated by Working Interest Owners of ninety per cent (90%) unit participation whenever such Working Interest Owners determine that unit operations are no longer profitable, feasible, or in the interest of conservation, with the approval of the Commission and the Commissioner. Notice of any such approval to be given by Unit Operator to all parties hereto.

Upon termination of this Agreement, the further development and operation of the Unit Area as a unit shall be abandoned, unit operations shall cease, and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate tracts just as if this Agreement had never been entered into.

If not otherwise covered by the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of three (3) months after termination of this Agreement in which to salvage, sell, distribute, or otherwise dispose of the personal property and facilities used in connection with unit operations.

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

24. APPEARANCES: Unit Operator shall, after notice to the other parties affected, have the right to appear for or 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 order issued under the regulations of said Commissioner, or Commission, or to apply for relief from any of said regulations or in any proceedings relative to operations before the said Commissioner, or Commission, or any other legally constituted authority, provided, however, that any other interested party shall also have the right, at his own expense, to be heard in any such proceedings.

25. 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 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.

26. NO WAIVER OF CERTAIN RIGHTS: Nothing contained in this Agreement shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

27. 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, acts of God, Federal, State, or municipal law or agencies, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

28. LOSS OF TITLE: In the event title to any tract of unitized land shall fail in whole or in part and the true owner cannot be induced to join this Unit Agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any Royalty, Working Interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided that as to State Land or leases, no payments of funds due the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Commissioner of Public Lands of the State of New Mexico, 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.

29. NONJOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a tract within the Unit Area fails or refuses to subscribe or consent in writing to this Agreement, the Working Interest Owner in that tract who has executed or ratified this Agreement may withdraw said tract from this Agreement by written notice to the Unit Operator, or such tract may be included in the Unit Area if the same can be and is qualified as provided in Section 11 hereof, Tracts Qualified for Unit Participation. Such withdrawal as above provided, shall, without further action, also operate to withdraw all Royalty Interest in such tract or tracts theretofore committed hereto. Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to submission of this Agreement to the Commissioner for final approval, may thereafter be committed hereto upon compliance with the applicable provisions of Section 11 hereof, at any time up to the effective date hereof and for a period of six (6) months thereafter, on the same basis of participation as provided for in Section 11 by the owner or owners thereof subscribing or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after six (6) months from the effective date hereof, the right of subsequent joinder as provided in this section

shall be subject to such requirements or approvals and on such basis as may be agreed upon by ninety per cent (90%) of the Working Interest Owners. Such joinder by a Royalty Owner must be evidenced by his execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may otherwise herein be provided, subsequent joinder to this Agreement shall be affective at 7:00 o'clock a.m. as of the first day of the month following the filing with the Commission and the Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this Agreement and approved by the Commissioner.

30. 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 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.

31. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the Unit Area; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of the Unitized Substances. No such taxes shall be charged to the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

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

WORKING INTEREST OWNERS

Name

Date Signed

Attest, if a Corporation or
Witness, if an Individual

PHILLIPS PETROLEUM COMPANY

ATTEST:

By

Vice President

By

Assistant Secretary

Address

INDIVIDUAL

WITNESS:

Address

STATE OF _____ }
COUNTY OF _____ } ss CORPORATION ACKNOWLEDGEMENT

On this _____ day of _____, 1964, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal of office this _____ day of _____, 1964.

My Commission Expires: _____

Notary Public in and for said
County and State

STATE OF _____ }
COUNTY OF _____ } ss INDIVIDUAL ACKNOWLEDGEMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____.

My Commission Expires: _____

Notary Public in and for said
County and State

STATE OF _____ }
COUNTY OF _____ } ss JOINT ACKNOWLEDGEMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____ and _____, his wife.

My Commission Expires: _____

Notary Public in and for said
County and State

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

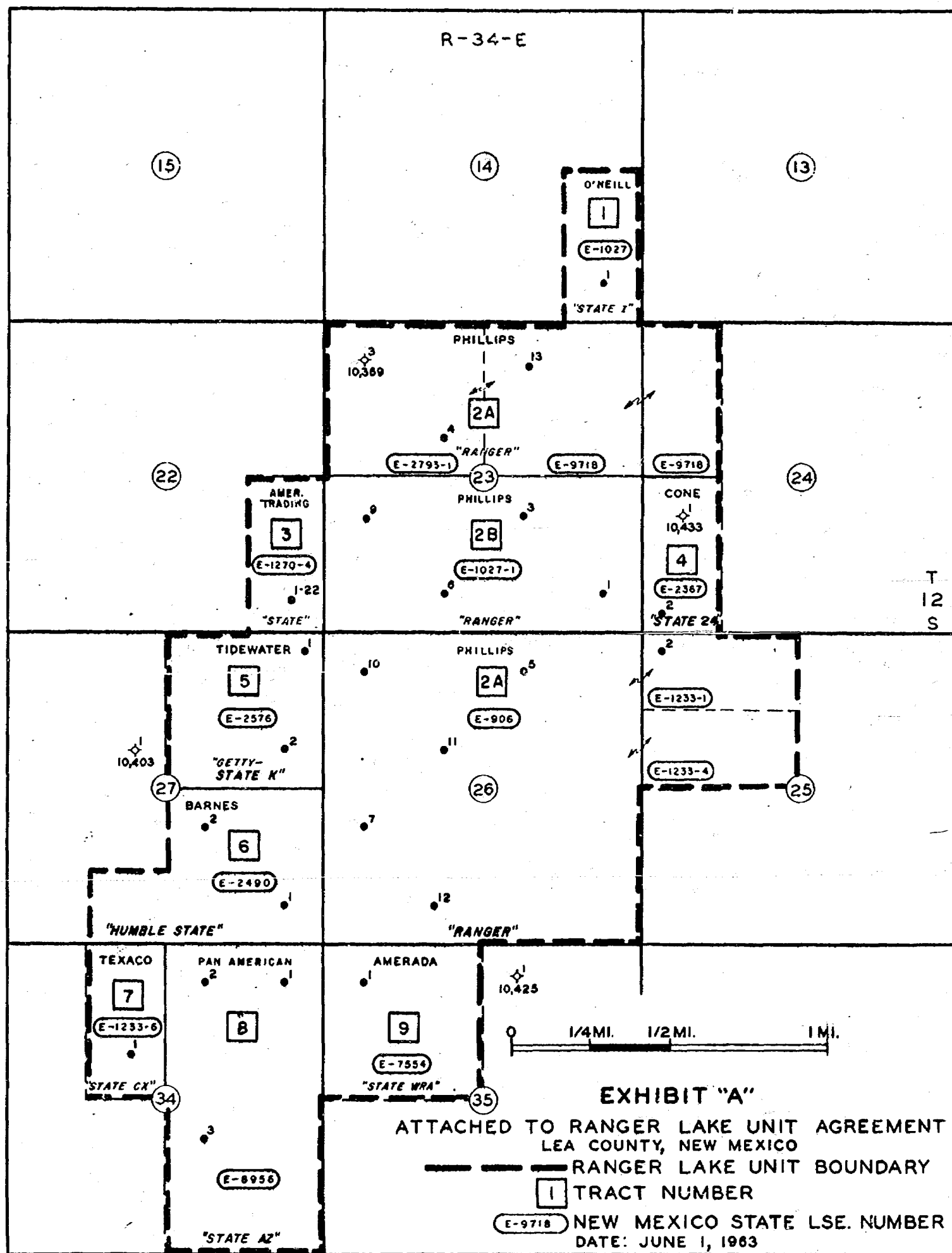
There has been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, an agreement for the development and operation of the Ranger Lake Unit Area, Lea County, New Mexico, dated March 1, 1964, in which Phillips Petroleum Company is designated as Operator, and which has been executed by various 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 conservation of oil and gas and the better utilization of reservoir energy in said field;
- (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 interests of the State;
- (d) That the agreement provides for the Unit operation of the field, for allocation of production and sharing of proceeds from the area covered by the agreement in accordance with a formula of the participation as specified in the agreement regardless of the particular tract from which production is obtained or proceeds are derived and for repressuring or secondary recovery operations.

NOW, THEREFORE, by virtue of the authority conferred upon me by virtue of the Laws of the State of New Mexico, 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 above referred to Ranger Lake Unit Agreement as to the lands of the State of New Mexico committed hereto, and all oil and gas leases embracing lands of the State of New Mexico committed to said agreement shall be and the same are hereby amended so that the provisions thereof will conform to the provisions of said Unit Agreement and so that the length of the secondary term of each such lease as to the lands within the Unit Area will be extended, insofar as is necessary, to coincide with the terms of said Unit Agreement and in the event the term of said Unit Agreement shall be extended as provided therein, such extension shall also be effective to extend the term of each oil and gas lease embracing lands of the State of New Mexico committed to said Unit Agreement which would otherwise expire, so as to coincide with the extended term of such Unit Agreement.

IN WITNESS WHEREOF, this Certificate of Approval is executed as of this
_____ day of _____, 1964.

Commissioner of Public Lands of the
State of New Mexico



**EXHIBIT B TO UNIT AGREEMENT
RANGER LAKE UNIT
LEA COUNTY, NEW MEXICO**

Tract No.	Lease Name	Description of Land (all in Twp. 12S-34E, Lea County, New Mexico)	Number Acres	New Mexico State Lease No.	Basic Royalty	Lessee of Record	Overriding Royalty Owners and Amount	Working Interest Owners and Amount	Tract Participations in Unit		6-30-52 Bbls. of Remaining Primary Oil			
									Primary	Secondary				
1	State "I"	E/2 SE/4 Sec. 1A	80	E-1027	10-10-46	12 1/2% State of N.M.	Vickers Pet. Co. Alco Oil & Gas Co. W. C. Dragalec, Trustee	25.10520 0.33500	Great Western Drilling Co. Algonquin Investment Co. E. T. Anderson Richard T. Baker Edwina S. Brokaw Walter Duncan J. Walter Duncan, Jr. Vincent J. Duncan Raymond T. Duncan G. Filmer Lutzbeck Hester S. Karsten W. E. Murphy Joseph I. O'Neill, Jr. Est. of Edward L. Shea Peter L. Shea	50.00000 1.00000 0.80000 1.00000 2.53333 7.55000 2.33067 4.03700 3.62233 2.00000 1.00000 1.00000 17.90001 2.33333 2.53333	0.33408 0.00708 0.00587 0.00708 0.01794 0.05559 0.01690 0.02859 0.02608 0.01415 0.00708 0.00708 0.12676 0.01652 0.01794	0.22705 0.00454 0.00362 0.00454 0.01150 0.03565 0.01058 0.01834 0.01672 0.00908 0.00454 0.00708 0.03128 0.01660 0.01151	2,912	
									Total	100.00000	0.70815	0.45410		
2-A	W. Ranger Unit	NW/4 Sec. 23 NE/4 Sec. 23 and W/2 NW/4 Sec. 24 All of Sec. 25 S/2 NW/4 Sec. 25 S/2 NW/4 Sec. 25 W. Ranger Unit Agreement dated March 15, 1956, approved by N.M. Commissioner of Public Lands May 2, 1956	160 160 80 640 80 80	E-2793-1 E-9718 E-9718 E-906 E-1233-1 E-1233-4	7-11-49 1-17-56 1-17-56 5-2-56 5-2-56 5-2-56	12 1/2% State of N.M.	Canwell S. Seal Phillips Pet. Co. Phillips Pet. Co. Phillips Pet. Co. Ralph Mix Ralph Mix	Eva S. Seal Est. Thos. Wiley Neal III Ralph Mix	0.43175 0.14341 0.28783	Phillips Pet. Co. -Oper. Texas Pacific Oil Co. a Div. of Jos. E. Seagram & Sons, Inc. Total	57.89474 42.10526 100.00000	23.61917 17.17738 40.79675	20.38323 14.82417 35.20740	197,790
2-B	W. Ranger Unit	S/2 Sec. 23	320	E-1027-3	10-10-46	12 1/2% State of N.M.	Vickers Pet. Co. John S. Werts, J. A. Vickers Helen Vickers Springer & Geo. Stahlwitz, Trustees of the J. A. Vickers Test. Trusts & various Vickers Tr. Estates Eva S. Seal Est. Thos. Wiley Neal III Ralph Mix	10.93750 0.43175 0.14341 0.28783	Phillips Pet. Co. -Oper. Texas Pacific Oil Co. a Div. of Jos. E. Seagram & Sons, Inc. Total	57.89474 42.10526 100.00000	9.66651 7.03019 16.69670	13.44142 5.77556 23.21700	55,550	
3	State	E/2 SE/4 Sec. 22	80	E-1270-4 -69	4-21-59	12 1/2% State of N.M.	American Trading & Prod. Corp. Cabot Carbon Co.	None	Am. Tr. & Prod. Corp.-Op. Cabot Carbon Co. Total	50.00000 50.00000 100.00000	0 0 0	0.02770 0.02770 0.05540	0	

EXHIBIT B - Page 2

Tract No.	Lease Name	Description of Land	Number Acres	New Mexico State Lease No.	Basic Royalty	Lessee of Record	Overriding Royalty Owners and Amount	Working Interest Owners and Amount	Tract Participations In Unit		6-30-62 Bbls. of Remaining Primary Oil	
									Primary	Secondary		
4	State "24"	W/2 SW/4 Sec. 24	80	E-2367 1-10-59	12 1/2% State of N.M.	Gordon M. Cone	None	Gordon M. Cone, Oper. J. U. Cone, Trustee 10% Douglas Cone Trust 10% Clifford Cone Trust 10% Thomas Cone Trust 10% Cathie Cone Trust 10% Kenneth Cone Trust J. U. Cone, Trustee 5% J. E. Bob Cone Trust 5% Jasso Cone Trust 5% Howard Cone Trust 5% Terry Cone Trust 5% Mary Cone Trust Roy G. Barton C. R. McVay Carson J. Stafford Total	12.50000 50.00000 25.00000 6.25000 3.12500 3.12500 100.00000	0.08625 0.34500 0.17250 0.04313 0.02156 0.02156 0.69000	0.35652 1.42610 0.71306 0.17826 0.08913 0.08913 2.85220	3,022
5	State "K"	NE/4 Sec. 27	160	E-2576 4-27-49	12 1/2% State of N.M.	Getty Oil Co. & Mission Corp.	None	Getty Oil (Tidewater-Oper.) Mission Corp. Total	50.00000 50.00000 100.00000	2.40020 2.40020 4.80040	2.50115 2.50115 5.00230	24,423
6	Humble State	SE/4 & SW/4 Sec. 27	200	E-2450 3-10-49	12 1/2% State of N.M.	J. C. Barnes Oil Co. Humble Oil & Ref. Co.	Humble Oil & Ref. Co. 12.50000	J. C. Barnes, Oper. J. C. Barnes, Jr. R. J. Hamstead W. F. Wynn Howard P. Holmes Freeport Oil Co. Geo. Stillwagon Geo. Stillwagon Trust Total	14.06250 14.06250 14.06250 14.06250 12.50000 25.00000 3.12500 3.12500 100.00000	0.37127 0.37127 0.37127 0.37127 0.30002 0.66005 0.08250 0.08250 2.64015	0.66348 0.66348 0.66348 0.66348 0.58976 1.17952 0.14745 0.14745 4.71810	10,040
7	State of New Mexico "CK"	E/2 NW/4 Sec. 34	80	E-1233-6 3-10-47	12 1/2% State of N.M.	Ralph Nix	Ralph Nix & wife, Francis Nix 5.46875	Yexaco Inc. -Oper. Sunray Oil Co. Total	50.00000 50.00000 100.00000	3.29002 3.29002 6.58005	1.83675 1.83675 3.67350	29,630
8	State of N.M. "AZ"	E/2 Sec. 34	320	E-2956 4-19-55	12 1/2% State of N.M.	Stanolind Oil & Gas Co. -now Pan American Pet. Corp.	None	Pan American Pet. Corp.-Oper. Total	100.00000 100.00000	19.11920 19.11920	17.41910 17.41910	71,988
9	State NR - "A"	NW/4 Sec. 35	160	E-7554 11-17-53 Assigned 7-15-54 Approved by N.M. Com. 7-26-54	12 1/2% State of N.M.	H. C. Hood	None	Amerada Pet. Corp. -Oper. Total	100.00000 100.00000	7.56860 7.56860	6.59690 6.59690	42,456
TOTAL			2680						100.00000	100.00000	477,871	

UNIT OPERATING AGREEMENT

RANGER LAKE UNIT

LEA COUNTY, NEW MEXICO

UNIT OPERATING AGREEMENT

RANGER LAKE UNIT

LEA COUNTY, NEW MEXICO

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EXHIBITS

- Exhibit "C": Unit Participation
- Exhibit "D": Accounting Procedure

UNIT OPERATING AGREEMENT

RANGER LAKE UNIT

LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of March, 1964, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H :

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

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement.

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

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

2.2 Revision of Exhibits. Whenever Exhibits A and B are revised, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

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

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

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

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

3.2.4 Expenditures. The making of any single expenditure in excess of Fifteen Thousand Dollars (\$15,000); provided that, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is Two Thousand Five Hundred Dollars (\$2,500) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided that, such designation

shall not prevent any Working Interest Owner from appearing in person at its own expense or from designating another representative in its own behalf.

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

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator,
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator unless such audit is conducted at the specific instance and request of the Unit Operator, in which latter event the same shall be made at the expense of all Working Interest Owners including Working Interest Owner designated as Unit Operator, and
- (c) be made upon not less than thirty (30) days' written notice to Unit Operator.

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

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

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

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

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Secondary Participation of not less than ten per cent (10%). No meeting shall be called on less than fourteen (14) days' advance written

notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

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

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

4.3.2 Vote Required - Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of sixty per cent (60%) or more voting interest; provided that, should any one Working Interest Owner have more than forty per cent (40%) voting interest, its vote must be supported by the vote of two or more Working Interest Owners having a combined voting interest of at least ten per cent (10%).

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

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

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

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

be charged to the Working Interest Owner who requests the information.

ARTICLE 6

UNIT OPERATOR

6.1 Initial Unit Operator. Phillips Petroleum Company is hereby designated as Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time. Working Interest Owners may remove Unit Operator at any time by the affirmative vote of at least eighty-five per cent (85%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of three (3) months after the resignation or discharge, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of at least eighty-five per cent (85%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

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

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

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

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

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations.

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Fifteen Thousand Dollars (\$15,000) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

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

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Unit Operator shall, beginning in the first calendar year after the effective date of the unit, make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; provided that, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

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

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator shall with respect to Unit Operations purchase or provide for the benefit of the joint account protection comparable to that afforded under standard form policies of insurance as follows:

9.1.1 Workmen's Compensation Insurance as required by the laws of the State of New Mexico.

9.1.2 Employer's Liability Insurance with a limit of \$25,000 for any one employee.

9.1.3 Public Liability Insurance, both bodily injury and death, with limits of not less than \$100,000 as to any one person, and \$200,000 as to any one accident, and Property Damage Liability Insurance with a limit of not less than \$50,000 per accident with the exception of the first \$5,000 property damage in any one accident.

9.1.4 Automobile Public Liability Insurance with bodily injury limits of not less than \$100,000 as to any one person and \$200,000 as to any one accident, and Automotive Property Damage Insurance with a limit of not less than \$50,000 as to any one accident.

9.2 Charges for Insurance and Losses. The premiums paid for insurance provided pursuant to Sections 9.1.1, 9.1.2 and 9.1.3 shall be charged to the joint account; provided that, if the Unit Operator elects to otherwise provide the equivalent protection it may charge the joint account with an amount equal to the premium charges at the prevailing rates for the protection so provided. The charge for the protection provided pursuant to Section 9.1.4 shall be included in the automotive rates charged to the joint account pursuant to Exhibit D.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells and Casing. All wells completed in the Unitized Formation, together with the casing therein.

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

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate in accordance with the provisions of Exhibit D the personal property taken over. Such inventories shall include and be limited to those items of equipment normally considered controllable by operators of oil and gas properties as indicated in the "Materials Classification Manual", revised 1960, prepared by the Petroleum Accountants Society of Oklahoma, except that certain items normally considered non-controllable, such as sucker rods, Kobe tubing of sizes less than two inches (2"), bottom hole pumps, and other items as agreed upon by the Working Interest Owners may be included on the inventories in order to insure

a more equitable adjustment of investments. All other non-controllable items of lease and well equipment installed within the Unit Area and required in unit operations, although excluded from the inventories, shall nevertheless be taken over by the Unit Operator. Casing shall be included in the inventory for record purposes but shall be excluded from pricing and investment adjustment.

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

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

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

10.6 Adjustment for Nonusable Wells. All wells delivered to the Unit Operator shall be in usable physical condition on the Effective Date. If any such well is determined by the Working Interest Owners to be in nonusable physical condition, the cost of placing such well in usable physical condition shall be charged to the Working Interest Owners owning such well immediately prior to the Effective Date. The amount of such charge shall in all respects be treated as any other item of Unit Expense chargeable against such Working Interest Owners.

ARTICLE 11

UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development, operation and supervision of the Unit Area. Working Interest Owners shall reimburse Unit Operator for all such costs and expenses, in proportion to their respective Unit Participation shown on Exhibit "C" in effect at the time said costs and expenses were incurred, except that all charges, including installation costs, for equipment, additions and enlargements of existing facilities, other than normal replacements, shall be based on the Secondary Participation as shown in Exhibit "C". It is specifically agreed that all charges relating to conversion of wells for injection purposes, enlargement of lift equipment and construction of plant and plant facilities shall be based on Secondary Participation as specified in Exhibit "C". All

charges, credits and accounting for costs and expenses shall be in accordance with Exhibit "D".

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

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

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

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in Each Tract, its share of Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of Unit Expense, together with interest thereon at the rate of six per cent (6%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default.

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

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective applicable Unit Participations; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

ARTICLE 12

NON-UNITIZED FORMATIONS

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

12.2 Multiple Completions. No well shall be multiply completed to produce from the Unitized Formation and any other formation within the Unit Area.

ARTICLE 13

TITLES

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

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

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

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

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Twenty-Five Hundred Dollars (\$2,500) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15

INTERNAL REVENUE PROVISION

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

ARTICLE 16

NOTICES

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

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights together with its interest in all Unit Equipment and in all wells used in Unit Operations. Such transfer shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the transfer, which delivery may be made to Unit Operator as Agent for the transferees. The interest transferred shall be owned by the transferees in proportion to their respective Unit Secondary Participations. The transferees shall not pay transferor for its interest in Unit Equipment. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

ARTICLE 18

ABANDONMENT OF WELLS

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

The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

ARTICLE 19

EFFECTIVE DATE AND TERM

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

19.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been

abandoned and plugged or turned over to Working Interest Owners in accordance with Article 20, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

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

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

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

20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned properly.

20.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operation in proportion to their respective Unit Secondary Participations.

ARTICLE 21

EXECUTION

21.1 Original, Counterpart, or Other Instrument. A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

ARTICLE 22

SUCCESSORS AND ASSIGNS

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

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

WORKING INTEREST OWNERS

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
PHILLIPS PETROLEUM COMPANY		ATTEST:

By _____
Vice President

By _____
Assistant Secretary

WITNESS:

_____	_____	_____
_____	_____	_____

STATE OF _____
COUNTY OF _____

ss

CORPORATION ACKNOWLEDGMENT

On this _____ day of _____, 1964, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal of office this _____ day of _____, 1964.

My Commission Expires: _____

Notary Public in and for said
County and State

STATE OF _____
COUNTY OF _____

ss

JOINT ACKNOWLEDGMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____ and _____, his wife.

My Commission Expires: _____

Notary Public in and for said
County and State

STATE OF _____ }
COUNTY OF _____ }

ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____.

My Commission Expires: _____

Notary Public in and for said
County and State

STATE OF _____ }
COUNTY OF _____ }

ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____.

My Commission Expires: _____

Notary Public in and for said
County and State

STATE OF _____ }
COUNTY OF _____ }

ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1964, by _____.

My Commission Expires: _____

Notary Public in and for said
County and State

EXHIBIT "C"

TO UNIT OPERATING AGREEMENT

RANGER LAKE UNIT

LEA COUNTY, NEW MEXICO

SUMMARY OF WORKING INTEREST OWNERSHIP BY INDIVIDUALS AND COMPANIES

<u>Working Interest Owner</u>	<u>Tract No.</u>	<u>Percent Working Interest</u>	<u>Tract Per Cent Participation Primary</u>	<u>Secondary</u>	<u>Working Interest Owners % Participation in Unit Primary</u>	<u>Secondary</u>
Algonquin Investment Co.	1	1.00000	0.70815	0.45410	0.00708	0.00454
Amerada Petroleum Corp.	9	100.00000	7.96860	6.59690	7.96860	6.59690
American Trad. & Prod. Co.	3	50.00000	0	0.05940	0	0.02970
Anderson, E. T.	1	0.80000	0.70815	0.45410	0.00567	0.00363
Barnes, J. C.	6	14.06250	2.64015	4.71810	0.37127	0.66348
Barnes, J. C., Jr.	6	14.06250	2.64015	4.71810	0.37127	0.66348
Baker, Richard T.	1	1.00000	0.70815	0.45410	0.00708	0.00454
Barton, Roy G.	4	6.25000	0.69000	2.85220	0.04313	0.17826
Brokaw, Edwina S.	1	2.53333	0.70815	0.45410	0.01794	0.01150
Cabot Carbon Co.	3	50.00000	0	0.05940	0	0.02970
Cone, Gordon M.	4	12.50000	0.69000	2.85220	0.08625	0.35652
Cone, J. U., Trustee	4	75.00000	0.69000	2.85220	0.51750	2.13916
Duncan, Raymond T.	1	3.68233	0.70815	0.45410	0.02608	0.01672
Duncan, Vincent J.	1	4.03700	0.70815	0.45410	0.02859	0.01834
Duncan, Walter	1	7.85000	0.70815	0.45410	0.05559	0.03565
Duncan, J. Walter, Jr.	1	2.33067	0.70815	0.45410	0.01650	0.01058
Freeport Oil Co.	6	25.00000	2.64015	4.71810	0.66005	1.17952
Getty Oil Co.	5	50.00000	4.80040	5.80230	2.40020	2.90115
Great Western Drilg. Co.	1	50.00000	0.70815	0.45410	0.35408	0.22705
Holmes, Howard P.	6	12.50000	2.64015	4.71810	0.33002	0.58976
Lundbeck, G. Hilmer, Jr.	1	2.00000	0.70815	0.45410	0.01416	0.00908
Marston, Hunter S.	1	1.00000	0.70815	0.45410	0.00708	0.00454

EXHIBIT "C"

Summary of Working Interest Ownership
By Individuals and Companies
Ranger Lake Unit
Page 2..

Working Interest Owner	Tract No.	Percent Working Interest	Tract Per Cent Primary	Participation Secondary	Working Interest Owners % Participation in Unit Primary	Secondary
Mission Corporation	5	50.00000	4.80040	5.80230	2.40020	2.90115
McVay, C. R.	4	3.12500	0.69000	2.85220	0.02156	0.08913
Murphy, M. E.	1	1.00000	0.70815	0.45410	0.00708	0.00454
O'Neill, Joseph I., Jr.	1	17.90001	0.70815	0.45410	0.12676	0.08128
Pan American Pet. Corp.	8	100.00000	19.11920	17.41910	19.11920	17.41910
Phillips Petroleum Co.	2-A	57.89474	40.79675	35.20740	23.61917	20.38323
Phillips Petroleum Co.	2-B	57.89474	16.69670	23.21700	9.66651	13.44142
Ramsland, R. J.	6	14.06250	2.64015	4.71810	0.37127	0.66348
Shea, Edward L., Estate	1	2.33333	0.70815	0.45410	0.01652	0.01060
Shea, Peter L.	1	2.53333	0.70815	0.45410	0.01794	0.01151
Stafford, Carmon J.	4	3.12500	0.69000	2.85220	0.02156	0.08913
Stillwagon, Geo.	6	3.12500	2.64015	4.71810	0.08250	0.14745
Stillwagon Trust., Geo.	6	3.12500	2.64015	4.71810	0.08250	0.14745
Sunray DX Oil Co.	7	50.00000	6.58005	3.67350	3.29003	1.83675
Texaco Inc.	7	50.00000	6.58005	3.67350	3.29002	1.83675
Texas Pacific Oil Co., a Div. of Jos. E. Seagram & Sons, Inc.	2-A	42.10526	40.79675	35.20740	17.17758	14.82417
Texas Pacific Oil Co., a Div. of Jos. E. Seagram & Sons, Inc.	2-B	42.10526	16.69670	23.21700	7.03019	9.77558
Wynn, W. F.	6	14.06250	2.64015	4.71810	0.37127	0.66348
Total					100.00000	100.00000

EXHIBIT " D "

Attached to and made a part of UNIT OPERATING AGREEMENT
RANGER LAKE UNIT
Lea County, New Mexico

ACCOUNTING PROCEDURE (JOINT OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

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

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

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

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

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

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

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

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C 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. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator 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.

6. Adjustments

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

7. 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, the making of an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**
Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.
2. **Labor**
 - A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.
 - B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
 - C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
 - D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employer is allowed under usual practice.
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 however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
4. **Material**
Material purchased or furnished by Operator for use on 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 and Material necessary for the Joint Operations but subject to the following limitations:
 - A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
 - B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
 - C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.
6. **Services**
 - A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
 - B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.
7. **Damages and Losses to Joint Property**
All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. **Legal Expense**
All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. **Taxes**
All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.
10. **Insurance Premiums**
Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.
11. **Other Expenditures**
Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a

fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

- ☐ Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)

☒ Paragraph 4. (Combined fixed rate)

1. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages 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 sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth) Each Well	PRODUCING WELL RATE (Use Current Producing Depth)		
		First Five	Next Five	All Wells Over Ten

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. Operator's Fully Owned Warehouse Operating and Maintenance Expense
(Describe fully the agreed procedure to be followed by the Operator.)

4. Combined Fixed Rates

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth) Each Well	PRODUCING WELL RATE (Use Current Producing Depth)		
		First Five	Next Five	All Wells Over Ten
All depths	650	105	95	85

Said fixed rate ~~(shall)~~ (shall not) include salaries and expenses of production foremen.

5. Application of Administrative Overhead or Combined Fixed Rates

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

- A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. The status of wells shall be as follows:

(1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding

- operations and salt water disposal wells shall be considered the same as producing wells.
- (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
 - (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
 - (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
 - (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
 - (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
- C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
 - D. The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.
6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:
 - A. Total cost less than \$25,000, no charge.
 - B. Total cost more than \$25,000 but less than \$100,000, 3 % of total cost.
 - C. Total cost of \$100,000 or more, 3 % of the first \$100,000 plus 1 % of all over \$100,000 of total cost.
 Total cost shall mean the total gross cost of any one project. For the purpose of this Paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.
 7. The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. Purchases

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

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (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 classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.
- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV because of

national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

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

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall 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 Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

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

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

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall 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-Operators

Material purchased by either the Operator or Non-Operators 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-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator 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 claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, 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 Account as secondhand at seventy-five percent (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. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

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

5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. Junk Material

Junk Material (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 Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, 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.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

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. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to be taken so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. 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 whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

MAIN OFFICE OCC

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BEFORE THE OIL CONSERVATION COMMISSION
OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF PHILLIPS PETROLEUM COMPANY FOR
APPROVAL OF THE RANGER LAKE UNIT
AGREEMENT EMBRACING 2,680 ACRES,
MORE OR LESS, LOCATED IN TOWNSHIP
12 SOUTH, RANGE 34 EAST, N.M.P.M.,
LEA COUNTY, NEW MEXICO.

Case No. 3088

A P P L I C A T I O N

Comes now Phillips Petroleum Company, a Delaware corporation duly authorized to do business in the State of New Mexico, and applies to the Oil Conservation Commission for approval of the Ranger Lake Unit, Lea County, New Mexico, and the unit agreement and unit operating agreement applicable to said unit area, and in support thereof would show:

1. The proposed unit area covered by said unit agreement embraces 2,680 acres, more or less, and such additional lands to which said agreement may be extended, as provided therein, the unit area being more particularly described as follows:

Township 12S, Range 34E

Section 14: E/2 SE/4
Section 22: E/2 SE/4
Section 23: All
Section 24: W/2 NW/4 and W/2 SW/4
Section 25: NW/4
Section 26: All
Section 27: E/2 and SE/4 SW/4
Section 34: E/2 and E/2 NW/4
Section 35: NW/4

2. The formation to be unitized is commonly known as the Ranger Lake zone of the Pennsylvanian formation, further identified as the producing formation found in the Phillips Petroleum Company's Ranger Lake Unit No. 1 well located in the SE/4 SE/4, Section 23, Township 12, South, Range 34 East, Lea County, New Mexico, between the depths of 6,080 and 6,230 feet below sea level.

3. The lands embraced within the proposed unit area consist of state lands.

4. The unit agreement and unit operating agreement will permit the producing area to be developed and operated in the interest of conservation and the prevention of waste of oil and gas. Applicant Phillips Petroleum Company is designated as unit operator in said unit agreement and as such is given authority under the terms thereof to carry on all operations necessary for the development and operation of the unit area and the unitized formation for the production of oil and gas, subject to all applicable laws and regulations.

5. A copy of the unit agreement and unit operating agreement for the development and operation of the Ranger Lake Unit area is filed herewith as Exhibit "1", and made a part hereof. The unit agreement is in substantially the same form as agreements heretofore approved by the New Mexico Oil Conservation Commission and the Commissioner of Public Lands, and a copy thereof has been submitted to the office of the Commissioner of Public Lands for approval. Names of all interest owners in the lands and formation unitized are shown in Exhibit "B" attached to the said unit agreement.

WHEREFORE, applicant requests that this matter be set for hearing before the Commission's examiner, and that after notice and hearing as required by law, the Commission enter its order approving the Ranger Lake Unit, Lea County, New Mexico.

PHILLIPS PETROLEUM COMPANY

By Jason W. Kellahin
Jason W. Kellahin
Kellahin & Fox
P. O. Box 1769
Santa Fe, New Mexico

CARL W. JONES
P. O. Box 791
Midland, Texas

J. V. PEACOCK
P. O. Box 791
Midland, Texas

ATTORNEYS FOR APPLICANT

