













**UNIT OPERATING AGREEMENT**  
**FOR THE DEVELOPMENT AND OPERATION**  
**OF THE**  
**CENTRAL BISTI LOWER GALLUP SAND UNIT AREA**  
**COUNTY OF SAN JUAN**  
**STATE OF NEW MEXICO**

**TABLE OF CONTENTS**

INDEX  
PREAMBLE  
AGREEMENT PROPER  
ACCOUNTING PROCEDURE . . . EXHIBIT "D"

UNIT OPERATING AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
CENTRAL BISTI LOWER GALLUP SAND UNIT AREA  
COUNTY OF SAN JUAN  
STATE OF NEW MEXICO

Table of Contents

Index

Preamble

Agreement Proper

Accounting Procedure...Exhibit "D"



## I N D E X

### Preamble

#### **Section I.**            Confirmation of Unit Agreement

- 1.1      Unit Agreement Confirmed
- 1.2      Definitions

#### **Section II.**          Management and Control

- 2.1      Over-All Supervision by Working Interest Owners
- 2.2      Particular Powers and Duties of Working Interest  
         Owners
- 2.3      Approved Action Binding on All Parties
- 2.4      Reservation of Rights by Owners
- 2.5      Specific Rights of Owners
- 2.6      Unit Operator
- 2.7      Powers and Duties of Unit Operator

#### **Section III.**        Exercise of Supervision by Working Interest Owners

- 3.1      Designation of Representatives
- 3.2      Meetings
- 3.3      Voting Procedure

#### **Section IV.**        Basis of Participation

- 4.1      Participating Interests
- 4.2      Percentage Participations of Tracts
- 4.3      Apportionment of Costs and Benefits

#### **Section V.**          Initial Adjustment of Investments

- 5.1      Equipment and Facilities Not Fixtures  
         Attached to Realty
- 5.2      Personal Property Taken Over
- 5.3      Inventory and Evaluation of Personal Property
- 5.4      Investment Adjustment
- 5.5      General Facilities
- 5.6      Ownership of Personal Property and Facilities

#### **Section VI.**        Investment Adjustment on Enlargement of          Participating Area

- 6.1      Adjustment on Enlargement of Participating Area
- 6.2      Separate Adjustment for Intangible Costs on  
         Enlargement of Participating Area

#### **Section VII.**       Development and Operating Costs

- 7.1      Basis of Charge to Working Interest Owners
- 7.2      Budgets
- 7.3      Advance Billings
- 7.4      Commingling of Funds
- 7.5      Lien of Unit Operator

Section VIII.	<u>Individual and Unit Operations</u>
8.1	Right to Operate in Non-Unitized Formations
8.2	Dual Completions
8.3	Accurate Gauge of Tanks
8.4	Drilling Within Participating Area
8.5	Wells Outside of Participating Area
8.6	Extension Wells by Lease Owner
8.7	Paying Wells - Dry Holes - Marginal Wells
8.8	Required Wells
8.9	Charges for Drilling Wells
8.10	Abandonment of Wells
Section IX.	<u>Use and Sale of Unitized Substances</u>
9.1	Use of Unitized Substances For Unit Operations
9.2	Unitized Substances Shall Be Taken in Kind
9.3	Delivery in Kind to Royalty Owners
Section X.	<u>Rentals and Compensatory Royalties</u>
10.1	Rentals
10.2	Compensatory Royalties
Section XI.	<u>Titles</u>
11.1	Warranty and Indemnity
11.2	Failure Because of Unit Operations
Section XII.	<u>Liability, Claims and Suits</u>
12.1	Individual Liability
12.2	Settlements
Section XIII.	<u>Withdrawal of Working Interest Owner</u>
13.1	Withdrawal
Section XIV.	<u>Miscellaneous</u>
14.1	Ad Valorem Taxes
14.2	Insurance
14.3	Internal Revenue Provision
14.4	Force Majeure
14.5	Notices
Section XV.	<u>Effective Date and Term</u>
15.1	Same as Unit Agreement
15.2	Execution
Section XVI.	<u>Abandonment of Operations</u>
16.1	Termination
Section XVII.	<u>Counterpart Execution</u>
17.1	Execution by Separate Counterparts or Ratifications
Section XVIII.	<u>Successors and Assigns</u>
18.1	Successors and Assigns

UNIT OPERATING AGREEMENT

FOR THE DEVELOPMENT AND OPERATION

OF THE

CENTRAL BISTI LOWER GALLUP SAND UNIT AREA

COUNTY OF SAN JUAN

STATE OF NEW MEXICO

THIS AGREEMENT, Made and entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by and between the parties who execute or ratify this agreement,

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 that certain Unit Agreement for the development and operation of the Central Bisti Lower Gallup Sand Unit Area, hereinafter referred to as "Unit Agreement" and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners pertaining to the development and operation of the Unit Area therein defined.

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

SECTION I

CONFIRMATION OF UNIT AGREEMENT

1.1 UNIT AGREEMENT CONFIRMED. The aforesaid Unit Agreement and all exhibits attached thereto are hereby confirmed and made a part of this agreement and all terms used in this agreement shall have the same meaning as indicated in the Unit Agreement unless otherwise defined herein or clearly indicated by

the context. Also, all land committed to the Unit Agreement shall constitute land referred to herein as "Unitized Lands" or "lands subject to this agreement".

1.2 DEFINITIONS. A "working interest" is an interest committed hereto which is obligated to bear or share, either in cash or out of production (other than by permitting the use of Unitized Substances for development, production, pressure maintenance, or secondary recovery purposes), a portion of all costs and expenses of drilling, developing, producing and operating the Unitized Lands under this agreement and the Unit Agreement; and a "Working Interest Owner" is the owner of a working interest. A Working Interest Owner is sometimes referred to herein simply as an "owner" or a "party hereto". A "Royalty Owner" is any party hereto who owns a right to or interest in any portion of the unitized substances or proceeds thereof other than a "Working Interest Owner". "Unitized Substances" shall mean all oil and gas (which includes gaseous substances, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons) within or produced from the Bisti Lower Gallup Sand in the lands subject to this agreement.

## SECTION II

### MANAGEMENT AND CONTROL

2.1 OVER-ALL SUPERVISION BY WORKING INTEREST OWNERS. Working Interest Owners shall exercise over-all supervision and control of all matters pertaining to the development and operation of the Unitized Lands pursuant to this agreement and the Unit Agreement. In the exercise of such power 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.

### 2.2 PARTICULAR POWERS AND DUTIES OF WORKING INTEREST OWNERS.

The matters to be passed upon and decided by Working Interest Owners in accordance with Section III hereof shall include, but not be limited to, the following:

- (a) The kind, character and method of operation, including any type of pressure maintenance or secondary recovery program to be employed;

- (i) The subsequent joinder of any Working Interest Owner or Royalty Owner in this agreement or in the Unit Agreement as provided for in the Unit Agreement, and the determination and revision of the percentage participation to be assigned to any tract committed to this agreement and the Unit Agreement after the effective date thereof, as provided in the Unit Agreement;
- (j) The preparation of any revision of Exhibit "C" to the Unit Agreement;
- (k) The taking of periodic inventory under the terms of Exhibit "D" hereof;
- (l) Any direct 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" hereof;
- (m) The appointment or designation of the purposes of committees or subcommittees necessary for the study of any problem in connection with unit operations;
- (n) The removal of Unit Operator and the selection of a successor;
- (o) The enlargement or contraction of the Unit Area and the enlargement of the Participating Area;
- (p) The adjustment and readjustment of investments;
- (q) Any revision or amendment of the overhead rates or any other provision in the "Accounting Procedure", attached hereto as Exhibit "D";
- (r) Selling or otherwise disposing of any major item of surplus equipment, the current list price of any equipment similar thereto being \$1500 or more;
- (s) The termination of the Unit Agreement.

2.3 APPROVED ACTION BINDING ON ALL PARTIES. Any action, determination or decision which has been approved by the Working Interest Owners pursuant to Section III shall be binding upon each and every Working Interest Owner, even though any such owner has not voted, or has voted to the contrary.

2.4 RESERVATION OF RIGHTS BY OWNERS. Working Interest Owners severally reserve to themselves all their rights, power and privileges except as expressly provided in this agreement and the Unit Agreement.

2.5 SPECIFIC RIGHTS OF OWNERS. Each Working Interest Owner shall have, among others, the following specific rights and privileges:

- (a) Access to the Unit Area at all reasonable times to inspect the operations hereunder and all wells and records and data pertaining thereto;
- (b) The right to receive from the 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 data pertaining to unit operations. The cost of gathering and furnishing data not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged solely to Working Interest Owners requesting the same.

2.6 UNIT OPERATOR. SUNRAY MID-CONTINENT OIL COMPANY is hereby designated as the initial Unit Operator. Subject to the provisions of this agreement, and to the orders, directions and limitations rightfully given or imposed by Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to develop and operate the Unitized Lands for the production of Unitized Substances.

2.7 POWERS AND DUTIES OF UNIT OPERATOR. To the extent necessary or convenient for the conduct of operations hereunder, and subject to the limitations herein contained, Working Interest Owners hereby delegate to Unit Operator all rights, powers and privileges granted to or conferred upon them by virtue of any contract or lease covering any land in the Unit Area or by virtue of the Unit Agreement. Unit Operator shall in the conduct of operations hereunder:

- (a) Conduct all operations in a good and workmanlike manner and, in the absence of specific instructions from Working Interest Owners, shall have the right and duty to conduct such operations in the same manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them advised of all matters arising in connection with such operations 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 the gross negligence or willful misconduct of Unit Operator.
- (b) Keep the lands and leases in the Unit Area free from all liens and encumbrances occasioned by its operations hereunder, except the lien of Unit Operator granted hereunder.

less than Fourteen (14) days advance written or telegraphic notice, with agenda for the meeting included. The Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding such amended items or from deciding other items presented at such meeting. The representative of the Unit Operator shall be Chairman of each meeting.

3.3 VOTING PROCEDURE. The Working Interest Owners shall act upon and determine all matters requiring their consent as follows:

- (a) In voting on any matter each Working Interest Owner shall have a voting interest equal to his or its Participating Interest, determined in accordance with Section IV of this agreement.
- (b) Except as otherwise specifically provided, the consent and approval of the Working Interest Owners under the provisions of the Unit Agreement and this agreement shall be deemed to have been given if given by an affirmative vote of at least three Working Interest Owners owning at least Sixty-Five (65%) per cent of Participating Interests; provided, however, that if any Working Interest Owner owns a Participating Interest of Thirty-Five (35%) per cent or more, its vote or failure to vote shall not serve to disapprove any matter approved by vote of Eighty (80%) per cent or more of the remaining Participating Interests, and provided, further, that any project involving a total expenditure in excess of \$150,000 or any determination with respect to the expansion of the Unit Area or for the drilling of any well outside the Participating Area pursuant to Subsection 8.5, an affirmative vote of at least Eighty (80%) per cent of Participating Interest shall be required for approval except that should one Working Interest Owner own more than Twenty (20%) per cent voting interest, its vote or failure to vote shall not serve to disapprove a matter unless supported by the vote of one or more other Working Interest Owners.
- (c) Any Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter or telegram addressed to the Chairman of the meeting provided such vote is received prior to the submission of such item to vote. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

- (d) Working Interest Owners may decide any matter by vote taken by letter or telegram, provided no meeting on the matter is called as provided in Subsection 3.2 within 7 days after such proposal is dispatched to the Working Interest Owners. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

#### SECTION IV

##### BASIS OF PARTICIPATION

4.1 PARTICIPATING INTERESTS. The "Participating Interest" of each Working Interest Owner hereunder is equal to the sum total of the percentage participations assigned to tracts in the Participating Area in which such Working Interest Owner owns an interest; provided that if the working interests in any such tract are owned in undivided interests by two or more Working Interest Owners, the percentage participation assigned to such tract shall be divided among such owners in proportion to their undivided interests; and, provided further that, if the working interests in any tract are divided with respect to separate parcels of such tract and owned severally by different parties, the percentage participation assigned to such tract shall, in the absence of a recordable instrument among all such parties fixing the division of ownership, be divided among such parcels in proportion to the number of surface acres in each.

4.2 PERCENTAGE PARTICIPATIONS OF TRACTS. The percentage participation assigned to each tract in the initial Participating Area is set forth in Exhibit "C" of the Unit Agreement subject to revision in the event less than all tracts within the initial Participating Area are committed to this agreement and to the Unit Agreement, all in accordance with the provisions of Section 11 of the Unit Agreement. The percentage participation shall also be revised in the event the Participating Area is revised as provided in Section 11 of the Unit Agreement and in accordance with the formula and procedures set forth in Section 12 of the Unit Agreement. Said percentage participations as fixed and determined pursuant to the Unit Agreement shall govern the Participating Interests of the Working Interest Owners hereunder.



4.3 APPORTIONMENT OF COSTS AND BENEFITS. Except as herein otherwise expressly provided, all costs, expenses and liabilities accruing or resulting from exploration, development, operation and maintenance of the Unitized Lands shall be borne by the Working Interest Owners in proportion to their respective Participating Interests at the time such costs, expenses and liabilities are incurred and all Unitized Substances produced hereunder and other benefits accruing hereunder shall be owned and shared by the Working Interest Owners in proportion to their respective Participating Interests at the time such production is obtained and benefits accrue.

## SECTION V

### INITIAL ADJUSTMENT OF INVESTMENTS

5.1 EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. Each of the parties hereto has heretofore placed and used on its tract or tracts committed to the Unit Agreement and this agreement, various well and lease equipment and other property, equipment, and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized Lands as now or hereafter constituted. Each of the parties hereto considers any and all such equipment to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by said agreements, and it is agreed that any and all such equipment and personal property shall be and remain personal property for all purposes. The provisions of this Section V and also the provisions of Section VI constitute a separate agreement and understanding with respect to any and all lease and operating equipment or other personal property heretofore or hereafter placed in or on the land in the Unit Area and to the extent necessary to accomplish such separate agreement, such lease and operating equipment is taken over separate and apart from the unitization of the working interests and production effected by the Unit Agreement and this agreement.

5.2 PERSONAL PROPERTY TAKEN OVER. Upon the effective date hereof, Working Interest Owners shall deliver to Unit Operator possession of:

- (a) All wells completed in the Bisti Lower Gallup Sand Formation (sometimes called "Unitized Formation") together with the casing therein;
- (b) The tubing in each such well, together with the wellhead connections thereon, and all other lease and operating equipment used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting unit operations; and
- (c) A copy of all production and well records pertaining to such wells.

5.3 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 so taken over. Such inventory shall be limited to controllable material (except casing) as defined by the "Material Classification Manual", 1953 Print, prepared by the Petroleum Accountants Society of Oklahoma. The material and equipment inventoried shall be valued on the price basis prescribed for material in Paragraph 2 of Article III of Accounting Procedure attached hereto as Exhibit "D", the applicable conditions to be indicated on the inventory; provided, however, that material and equipment not classified to be in condition A, B, or C as specified in Paragraph 2 of Article III of Exhibit "D" shall not be taken over by Unit Operator except by special agreement with the owners of said equipment as authorized by the Working Interest Owners.

5.4 INVESTMENT ADJUSTMENT. Upon approval by Working Interest Owners of such inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property (exclusive of the casing in wells) so taken over by Unit Operator under Subsection 5.2(b), and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Subsection 5.2(b) by such Working Interest Owner's Participating Interest as determined in accordance with Section IV hereof. 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 paid and in all other respects be treated as any other item of unit expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is

greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

5.5 GENERAL FACILITIES. The acquisition of warehouses, warehouse stocks, leasehouses, camps, facility systems and office buildings necessary for operations hereunder shall be by negotiation by and between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustment for lease roads or appurtenances thereto.

5.6 OWNERSHIP OF PERSONAL PROPERTY AND FACILITIES. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement equal to its Participating Interests. Personal property and facilities not taken over by Unit Operator shall be reclaimed by the original owner thereof and shall be removed from the Unit Area within ninety (90) days after the owners of such property are advised in writing that the property shall not be retained by Unit Operator for operations hereunder, unless said property and facilities not retained are necessary for use by the owners thereof in the operation or development of horizons not unitized under the Unit Agreement and this agreement.

## SECTION VI

### INVESTMENT ADJUSTMENT ON ENLARGEMENT OF PARTICIPATING AREA

6.1 ADJUSTMENT ON ENLARGEMENT OF PARTICIPATING AREA. On enlargement of the Participating Area as provided in the Unit Agreement, there shall be investment adjustments between the Working Interest Owners in the enlarged Participating Area who are parties hereto and the Working Interest Owners in the former Participating Area who are parties hereto to the end that costs and investments within the enlarged Participating Area shall be paid for by the Working Interest Owners in the enlarged Participating Area in proportion to

their respective Participating Interests in the enlarged Participating Area, and also to the end that the parties who have previously paid said costs shall be reimbursed, all in the manner as set forth in Section V hereof pertaining to the initial adjustment of investments, except that a separate adjustment for intangibles shall also be made as provided in Subsection 6.2 hereof.

6.2 SEPARATE ADJUSTMENT FOR INTANGIBLE COSTS ON ENLARGEMENT OF PARTICIPATING AREA. The Working Interest Owners in the Participating Area before its enlargement shall receive credit for the intangible cost of drilling, completing and equipping all wells drilled subsequent to the effective date hereof which are capable of producing Unitized Substances within the said enlarged Participating Area or which are utilized or to be utilized as injection wells or for other purposes within the enlarged Participating Area including all intangible costs incurred subsequent to the effective date of this agreement incident to recompleting and converting wells to injection wells and intangible costs incident to the construction of pressure maintenance and other facilities necessary to the operation of the Unitized Land. No credit shall be given for intangibles in the area to be admitted to the enlarged Participating Area and no credit shall be given for the previous cost of operating any wells or for the intangible cost of repairing or maintaining other property, nor shall there be any debit for and on account of production taken from wells prior to the effective date of the enlargement of the Participating Area. The sum total of said credit shall be apportioned to the enlarged Participating Area, and a separate cash adjustment of intangibles shall be made among Working Interest Owners through the Unit Operator to the end that the costs of said intangibles shall be paid by the Working Interest Owners in the enlarged Participating Area in proportion to their Participating Interests.

## SECTION VII

### DEVELOPMENT AND OPERATING COSTS

7.1 BASIS OF CHARGE TO WORKING INTEREST OWNERS. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development and operation of the Unit Area. Working Interest Owners shall reimburse Unit Operator for all such costs and expenses in proportion to their respective Participating Interests computed in accordance with Section IV hereof. All charges, credits, and accounting for costs and expenses shall be in accordance with Exhibit "D" hereof. The term "Operator" as used in Exhibit "D" shall be deemed to refer to the Unit Operator, and the term "Non-Operators" as used in Exhibit "D" shall be deemed to refer to the Working Interest Owners other than Unit Operator.

7.2 BUDGETS. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare a budget of estimated costs and expenses for the remainder of the calendar year and on or before the first day of each October thereafter shall prepare a budget of estimated costs and expenses for the ensuing calendar year. Such budgets shall set forth the estimated costs and expenses by quarterly periods. Unless otherwise specified in the budget, it shall be presumed for the purpose of advance billings that the estimated costs and expenses for each month of a quarterly period shall be one-third (1/3) of the estimate for the quarterly period. Budgets so prepared shall be estimates only and shall be subject to adjustment and correction by Working Interest Owners and Unit Operator from time to time whenever it shall appear that an adjustment or correction is proper. A copy of each budget and adjusted budget shall be promptly furnished each Working Interest Owner.

7.3 ADVANCE BILLINGS. Unit Operator shall have the right at its option to require Working Interest Owners to advance their respective proportions of such costs and expenses by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its

proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly.

7.4 COMMINGLING OF FUNDS. No funds received by Unit Operator under this agreement need be segregated by Unit Operator or maintained by it as a joint fund, but may be commingled with its own funds.

7.5 LIEN OF UNIT OPERATOR. Each Working Interest Owner grants to Unit Operator a lien upon such Working Interest Owner's leasehold and other mineral interests in each tract, its interest in all jointly owned materials, equipment, and other property and its interest in all Unitized Substances, as security for payment for the costs and expenses chargeable to it, together with interest thereon at the rate of Six (6%) per cent per annum. Unit Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by any Working Interest Owner in the payment of costs and expenses chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers the proceeds of such Working Interest Owner's share of Unitized Substances up to the amount owing by such Working Interest Owner plus interest, as aforesaid, until paid. Each such purchaser shall be entitled to rely upon Unit Operator's statement concerning the existence and amount of any such default.

## SECTION VIII

### INDIVIDUAL AND UNIT OPERATIONS

8.1 RIGHT TO OPERATE IN NON-UNITIZED FORMATIONS. Any Working Interest Owner now having, or hereafter acquiring, the right to drill for and produce oil, gas, or other minerals, other than Unitized Substances, within the Unit Area shall have the full right to do so notwithstanding this agreement. In exercising said right, however, such Working Interest Owner shall exercise every reasonable precaution to prevent unreasonable interference with operations hereunder. If any Working Interest Owner drills any well into or through the

Unitized Formation, the Unitized Formation shall be cased or otherwise protected in such a manner that the Unitized Formation and the production of Unitized Substances shall not be adversely affected.

8.2 DUAL COMPLETIONS. Except for those wells taken over by the Unit which are dually completed on the effective date of this agreement, no other Unit wells may subsequently be dually completed unless and until the approval of the Working Interest Owners is obtained and such completion is made in accordance with the methods prescribed by the Working Interest Owners. Dually completed wells will be handled as follows:

(a) A lessee who contributes a well producing from more than one zone shall be obligated to segregate such zones prior to the well being taken over by the Unit in a manner satisfactory to the Working Interest Owners, the cost of such work to be borne by the lessee contributing such well. If such zones are not segregated prior to the effective date then such work shall be done by the Unit Operator as directed by the Working Interest Owners at the expense of the lessee contributing such well.

(b) Any lessee who wishes to recondition, redrill or workover any dual well taken over by the Unit under this agreement for the production of oil or gas from any formation other than the Lower Gallup Sand, shall submit its plan to the Working Interest Owners for approval, and upon such approval said work shall be performed under the supervision of the Unit Operator at lessee's own risk, cost and expense. The productive capacity or injectivity of the Lower Gallup Sand in any such well prior to such reconditioning, redrilling or reworking shall be ascertained by the Unit Operator prior to the commencement of such work, and the respective lessee so advised in writing. Said lessee shall use all reasonable, practicable and customary methods in order to so restore the productivity or injectivity of the Unitized Lower Gallup Sand to the satisfaction of the Working Interest Owners, including the drilling of a replacement well if the hole is lost.

(c) Should the Unit Operator at the direction of the Working Interest Owners do remedial work on the Lower Gallup Sand in any dually completed well, and the cost of such work, in the opinion of the Working Interest Owners, is in excess of what it would have been had the formation other than the Lower Gallup not been producing in such well, the additional cost of such work shall be chargeable to the lessee owning such other zone or formation in such well and such lessee shall be liable for such additional cost upon notification of the amount thereof by the Unit Operator. The words "Additional Cost" as used above shall mean the difference between the normal charges incurred in working over, reconditioning or redrilling a dually completed well and the normal charges for doing the same work on a well which is not dually completed.

- (d) When and if the Working Interest Owners determine that the operation of a well that has been dually completed is interfering with the efficiency of the Unit Plan of Operation, Unit Operator shall advise the lessee operating such zone or formation other than the Lower Gallup Sand that such formation must be shut off or reworked by lessee under the direction of the Unit Operator and to the satisfaction of the Working Interest Owners. The work shall be done at the sole risk, cost and expense of said lessee. If said lessee shall fail or refuse to perform said work as directed by Unit Operator, then said work shall be performed by Unit Operator at the sole risk, cost and expense of said lessee. Said lessee and Unit Operator may agree upon the amount of such costs, but if they fail to agree, then the work shall be done on a competitive basis.

8.3 ACCURATE GAUGE OF TANKS. 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 in such tanks, above the pipe line connections, as of 7:00 A.M. on the effective date hereof. All such oil as is a part of the prior allowable of the well or wells from which the same was produced 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 may be sold by the 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. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any tract is overproduced with respect to the allowable of the well or wells on that tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such tract as having been delivered to the persons entitled to Unitized Substances allocated to such tract.



8.4 DRILLING WITHIN PARTICIPATING AREA. All wells drilled after the effective date of this agreement within the boundaries of the Participating Area to the Bisti Lower Gallup Sand including injection wells, reworking operations, and recompleting wells and converting wells to injection wells, shall be drilled by Unit Operator for the joint account, at joint risk and expense, and upon authorization of the Working Interest Owners pursuant to Section III.

8.5 WELLS OUTSIDE OF PARTICIPATING AREA. The Unit Operator may drill any well within the Unit Area but outside the boundaries of an established Participating Area with the object of completing the same in the Bisti Lower Gallup Sand, which well is herein referred to as an "extension well", for the joint account and at joint risk and expense, upon authorization of the Working Interest Owners obtained pursuant to Section III. Such "extension wells" may also be drilled as provided by Subsection 8.6.

8.6 EXTENSION WELLS BY LEASE OWNER. In addition to the method provided in Subsection 8.5 hereof, "extension wells" may be drilled by a single party on his or its own lease as provided in Section 13 of the Unit Agreement, unless the Working Interest Owners within the Participating Area elect to drill the same as provided in Subsection 8.5 hereof. In the event there is more than one party having an interest in the lease on which the well is desired to be drilled, the same may be drilled on the authority of the majority in interest of the parties in and to said tract. Such wells may be drilled by the Unit Operator for the account of the parties financing same. If any party or parties hereto elect to drill a well or wells in accordance with the provisions of Section 13 of the Unit Agreement, the basis of contribution to the cost thereof and the final adjustment or disposition of such costs shall be by separate agreement between the parties financing said well.

8.7 PAYING WELLS - DRY HOLES - MARGINAL WELLS. In the event any well drilled under the provisions of this Section VIII encounters production in quantities sufficient to justify the same being included in the Participating Area, there shall be an investment adjustment between the owners of the working

interests affected in accordance with the provisions of Section VI hereof.

In the event any such well is a dry hole, it shall be plugged and abandoned at the sole risk, cost and expense of the parties responsible for the drilling of the well. If any such well obtains production in insufficient quantities to justify the inclusion of the lands on which the well is located in the Participating Area, the same shall be operated for the account of and the production shall be owned by the parties who participated in the cost of drilling the well in accordance with Section 13 of the Unit Agreement.

8.8 REQUIRED WELLS. In the event the Operator is required to drill an extension well upon any regular well spacing unit outside of the boundaries of the Participating Area or any development well within the Participating Area by Government order (including any Federal or State agency), or demand, whether such order or demand is initiated by the Government independent of consideration of any plan of development, or is issued as a required authorization of a plan of development, the cost of drilling and completing said well if a producer, and of plugging and abandoning the well, if a dry hole, shall be borne by all of the Working Interest Owners in said Participating Area in proportion to their interests therein, except as otherwise may be provided by separate agreement.

Notwithstanding anything in this Subsection 8.8 to the contrary, in the event the Working Interest Owners do not elect, pursuant to Section III, to drill said required well, same shall not be drilled if either of the following alternatives is available:

- (a) If compensatory royalties may be paid in lieu of drilling the well and payment of same receives approval of the Working Interest Owners pursuant to Section III, Unit Operator shall pay such compensatory royalty for the joint account of the Working Interest Owners who would be chargeable with costs incurred in drilling the well; or
- (b) If the drilling of the well may be avoided without penalty by contraction of the Unit Area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the Director, Commissioner and the Commission.

8.9 CHARGES FOR DRILLING WELLS. All wells drilled for the joint account shall be drilled at rates comparable to competitive contract rates by properly qualified contractors; provided, however, Unit Operator, if it so desires, may employ its own tools and equipment in the drilling of wells but, in such event, the charge therefor shall not exceed the prevailing rate in the area and such work shall be performed by Unit Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

8.10 ABANDONMENT OF WELLS. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the Working Interest Owners of the tract on which such well is located and said Working Interest Owners shall have the right and option for a period of Ninety (90) days after receipt of such notice to notify Unit Operator of their election to take over and own said well and to deepen or to plug back said well to a formation other than to the Unitized Formation. Within Thirty (30) days after said Working Interest Owners have so notified Unit Operator of their desire to take over such well and the salvage value has been determined, they shall pay to Unit Operator, for credit to the joint account of the Working Interest Owners, the amount as estimated and fixed by Working Interest Owners to be the net salvage value of the casing and equipment in and on said well. At the same time the Working Interest Owners taking over the well shall agree by letter addressed to Unit Operator to effectively seal off and protect the Unitized Formation, and at such time as the well is ready for abandonment to plug and abandon the well in a workmanlike manner in accordance with applicable laws. In the event 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 accordance with applicable laws.

## SECTION IX

### USE AND SALE OF UNITIZED SUBSTANCES

9.1 USE OF UNITIZED SUBSTANCES FOR UNIT OPERATIONS. Unit Operator shall have the right to use any one or more Unitized Substances produced from the Unitized Lands for all drilling operations, for pumping, transporting, handling and treating Unitized Substances; for injection, pressure maintenance and secondary recovery programs as may be authorized and approved by the Working Interest Owners; for fuel in camps and houses of employees serving the Unitized Lands, and for all other operations hereunder.

9.2 UNITIZED SUBSTANCES SHALL BE TAKEN IN KIND. Each Working Interest Owner shall take in kind its share of each Unitized Substance excluding the Unitized Substances used by Unit Operator under Subsection 9.1 hereof or unavoidably lost. In the event any party hereto shall fail to take in kind or to separately dispose of its share of Unitized Substances, when and if produced, Unit Operator (or any Working Interest Owner if Unit Operator fails to exercise the right) shall have the right to sell or itself purchase the same on a day to day basis at the market price in the area, if obtainable; otherwise, at the best price obtainable. Any cost incurred by Unit Operator in making any such sale shall be borne by the party whose share is sold. Any such sale or purchase by Unit Operator or any Working Interest Owner, as the case may be, shall be subject always to the right of the owner of such Unitized Substances to exercise at any time the right to take in kind or to separately dispose of its share of production not previously delivered to a purchaser pursuant hereto.

9.3 DELIVERY IN KIND TO ROYALTY OWNERS. Unit Operator is hereby authorized to deliver in kind to Royalty Owners the amounts of the Unitized Substances to which they are entitled under the provisions of Sections 11 and 12 of the Unit Agreement and to deduct such amounts from the share of each Working Interest Owner responsible therefor. Settlement for royalty interest not taken in kind shall be made by the Working Interest Owners in each tract responsible therefor under existing contracts, laws, and regulations on the

basis of the amounts of Unitized Substances allocated to such tract. If any of said tracts are burdened with overriding royalties, payments out of production or any other charges in addition to the usual royalty, the Working Interest Owners committing such tract shall bear and assume the same out of Unitized Substances allocated thereto.

#### SECTION X

##### RENTALS AND COMPENSATORY ROYALTIES

10.1 RENTALS. The Working Interest Owners in each tract shall pay all rentals, minimum royalties, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator the evidence of payment. If the Working Interest Owners in any tract determine not to pay any such rental, they shall notify Unit Operator at least Sixty (60) days before the due date and they shall thereupon assign to all other Working Interest Owners in the Unit Area proportionable to their interest on a surface acreage basis all of their right, title and interest under said lease; provided, however, all such assignments shall be subject to all obligations with respect to reassignments, if any, of the parties making such assignments theretofore created in favor of parties who are not parties to this agreement. In the event of failure of any Working Interest Owner to make proper payment of any delay rental through mistake or oversight where such rental is required to continue the lease in force, there shall be no money liability on the part of the party failing to pay such rental, but such party shall make a bona fide effort to secure a new lease covering the same interest and commit such lease to the Unit Agreement and, in the event of failure to secure the new lease within a reasonable time, the interest of the parties hereto shall be revised, if required, so that the party failing to pay any such rental shall not be credited with the ownership of any lease on which rental was required but was not paid. The Unit Operator shall incur no liability for failure to pay any rental due under the terms of any lease committed to said Unit Agreement; however, in the event any rentals are paid by Unit Operator, the same shall be charged and billed to the party responsible for payment of same. In the

event of loss of title to a lease for failure to pay rental, all losses occasioned thereby shall be that of the Working Interest Owners who should have paid the same.

10.2 COMPENSATORY ROYALTIES. Where the Working Interest Owners determine to pay compensatory royalty in lieu of drilling a demanded well such compensatory royalties shall be paid by Unit Operator and charged to the joint account.

## SECTION XI

### TITLES

11.1 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 "B" of the Unit Agreement and hereby indemnifies and holds the other Working Interest Owners harmless 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 operations hereunder; provided, however, that such indemnity shall be limited to an amount equal to the net value that had been received from the sale of Unitized Substances attributed hereunder to the interest as to which title failed. Each failure of title will 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 retro-active adjustment of development and operating expenses, Unitized Substances or the proceeds therefrom as a result of title failure.

11.2 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 constitute a joint loss.

## SECTION XII

### LIABILITY, CLAIMS AND SUITS

12.1 INDIVIDUAL LIABILITY. The duties, obligations and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing contained herein shall ever be construed as creating a partnership of any kind, joint venture, or an association or trust between or among the Working Interest Owners.

12.2 SETTLEMENTS. In the event claim is made against any Working Interest Owner or any Working Interest Owner is sued on account of any matter or thing arising from the development and operation of the Unit Area and over which such Working Interest Owner individually has no control because of the rights, powers, and duties granted by this agreement and the Unit Agreement, said Working Interest Owner shall immediately notify the Unit Operator of such claim or suit. Working Interest Owners shall assume and take over the further handling of such claim or suit and all costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be borne by Working Interest Owners as any other cost or expense of operating the Unitized Lands.

#### SECTION XIII

##### WITHDRAWAL OF WORKING INTEREST OWNER

13.1 WITHDRAWAL. If any Working Interest Owner so desires, it may withdraw from this agreement by conveying, assigning, and transferring without warranty of title, either express or implied, to the other Working Interest Owners who do not desire to withdraw herefrom, all of the former's rights, title and interest in and to its lease or leases, or other operating rights in the Unit Area in so far as said lease, leases or rights pertain to the Unitized Formation, together with the withdrawing Working Interest Owner's interest in all wells, pipe lines, casing, injection equipment, facilities and other personal property used in conjunction with the development and operation of the Unit Area; provided, however, that such transfer, assignment or conveyance shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the execution and delivery thereof. The interest so transferred, assigned and conveyed shall be taken and owned by the other Working Interest Owners in proportion to their respective Participating Interest. After the execution and delivery of such transfer, assignment or conveyance, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under said Unit Agreement;

and the right of such Working Interest Owner to any benefits subsequently accruing hereunder and under said Unit Agreement shall cease; provided, that upon delivery of said transfer, assignment or conveyance, the assignees, in the ratio of the respective interests so acquired, shall pay to the assignor for its interest in all jointly owned equipment, casing, and other personal property the fair net salvage value thereof, as estimated and fixed by Working Interest Owners.

#### SECTION XIV

#### MISCELLANEOUS

14.1 AD VALOREM TAXES. Unit Operator shall make and file for ad valorem tax purposes all necessary renditions and returns with the proper taxing authorities or Governmental subdivisions covering all real and personal property of each Working Interest Owner within the Unit Area and used in connection with the development and operation of the Unit Area. Any Working Interest Owner dissatisfied with any proposed rendition or assessment of its interest in real or personal property shall have the right, at its own expense, to protest and resist the same. All such ad valorem taxes due and payable on account of real and personal property of each Working Interest Owner located within the Unit Area and used in connection with unit operations shall be paid by Unit Operator for the joint account in the same manner as other costs and expenses of unit operations.

14.2 INSURANCE. As to all operations hereunder, Unit Operator shall carry for the benefit and protection of the parties hereto the following insurance:

- (a) Workmen's Compensation Insurance sufficient to comply with the Workmen's Compensation Law for the State of New Mexico;
- (b) Employer's Liability Insurance with limits of not less than Twenty-Five Thousand (\$25,000.00) Dollars per person;



- (c) Comprehensive General Liability Insurance with bodily injury limits of not less than Two Hundred Fifty Thousand (\$250,000.00) Dollars per person and Five Hundred Thousand (\$500,000.00) Dollars per accident and Property Damage Coverage with limits of not less than Fifty Thousand Dollars (\$50,000.00) per accident, and Two Hundred Fifty Thousand (\$250,000.00) Dollars aggregate;
- (d) Comprehensive Automobile Liability Insurance with bodily injury limits of not less than Two Hundred Fifty Thousand (\$250,000.00) Dollars per person and Five Hundred Thousand (\$500,000.00) Dollars per accident and Property Damage Coverage with limits of not less than Fifty Thousand (\$50,000.00) Dollars per accident. Where Unit Operator charges for its exclusively owned automotive equipment on a rate which includes insurance, no additional charge for such insurance shall be made to the joint account under this Subparagraph (d).

Premiums paid for such insurance shall be charged to the joint account. Unit Operator shall not carry fire or extended coverage insurance upon the property under its control. Unit Operator shall require all contractors and sub-contractors employed in operations hereunder to carry Workmen's Compensation and Employer's Liability Insurance, and satisfactory Comprehensive General Liability and Comprehensive General Automobile Insurance.

14.3 INTERNAL REVENUE PROVISION. Each of the parties hereto elects under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs Unit Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Unit Operator so to do, each party agrees to execute and join in such an election.

14.4 FORCE MAJEURE. In the event any party hereto is rendered unable, wholly or in part, by Force Majeure to carry out its obligations under this contract other than the obligation to make payment of amounts due hereunder, it is agreed that upon such party's giving notice and reasonably full particulars of Force Majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, then the obligations of the party giving the notice, so far as they are affected by Force Majeure, shall be suspended during the continuance of any liability so caused, but for no longer period; and the cause of the Force Majeure shall, so far as possible, be remedied with all reasonable dispatch. The term "Force Majeure" as employed herein shall mean any cause not reasonably within the control of the party claiming suspension.

14.5 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 Section III hereof.

## SECTION XV

### EFFECTIVE DATE AND TERM

15.1 SAME AS UNIT AGREEMENT. Subject to the provisions of Subsection 15.2, this agreement shall be binding on all parties who execute it regardless of the joinder or non-joinder of any other party; provided, however, this agreement shall not become effective until the effective date of the Unit Agreement and the term hereof shall be the same as the term of said Unit Agreement and thereafter until all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Section XVI hereof, and all personal and real property acquired for the joint account of the Working Interest Owners has been disposed of by Unit Operator in accordance with instructions of Working Interest Owners.

15.2 EXECUTION. Unit Operator shall, prior to the final submission of the Unit Agreement to the Director, Commissioner, and the Indian Commissioner (or their duly authorized representatives) for final approval, submit to the Working Interest Owners a report as to the number and the percentage in interest of the Working Interest Owners and Royalty Owners who have executed the Unit Agreement. The Working Interest Owners shall determine by the affirmative vote of parties owning Participating Interests of at least Seventy-Five (75%) per cent, determined on the basis of the percentage participations set forth in Exhibit "C" of the Unit Agreement, whether or not submission of the Unit Agreement to the Director, Commissioner and the Indian Commissioner for final approval is justified. If an affirmative vote is obtained, all parties who have joined herein shall be bound hereby and shall remain a party hereto regardless of the joinder or non-joinder of any other owner who might be entitled to join herein, but in the event of a negative vote, no party hereto shall thereafter be bound by the terms of either the Unit Agreement or this agreement.

#### SECTION XVI

##### ABANDONMENT OF OPERATIONS

16.1 TERMINATION. Upon termination of the Unit Agreement the following will occur:

- (a) Possession of all oil and gas rights in and to the separate tracts in the Unit Area shall revert to the Working Interest Owners thereof;
- (b) Working Interest Owners of any such tract desiring to take over and continue to operate a well or wells located thereon may do so by paying Unit Operator, for the credit of the joint account, the net salvage value of the casing and equipment in and on the well and by agreeing to properly plug the well at such time as it is abandoned.
- (c) With respect to all wells not taken over by Working Interest Owners, Unit Operator shall, at the joint expense of Working Interest Owners, salvage as much of the casing and equipment in or on such wells as can economically and reasonably be salvaged and shall cause the same to be properly plugged and abandoned.

- (d) Working Interest Owners shall share the cost of salvaging, liquidation, or distribution of assets and properties used in the development and operation of the Unit Area in proportion to their respective Participating Interests.

## SECTION XVII

### COUNTERPART EXECUTION

17.1 EXECUTION BY SEPARATE COUNTERPARTS OR RATIFICATIONS. This agreement may be executed in any number of counterparts and each counterpart so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument; or may be ratified by a separate instrument in writing referring to this agreement. Each such ratification shall have the force and effect of an executed counterpart and of adopting by reference all provisions hereof.

## SECTION XVIII

### SUCCESSORS AND ASSIGNS

18.1 SUCCESSORS AND ASSIGNS. The terms and provisions hereof shall be covenants running with the lands and unitized leases covered hereby and shall be binding upon and inure to the benefit of the respective heirs, successors and assigns of the parties hereto.

IN WITNESS WHEREOF, this agreement is executed as of the date first above written.

UNIT OPERATOR AND WORKING INTEREST OWNER

SUNRAY MID-CONTINENT OIL COMPANY

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:  
\_\_\_\_\_

WORKING INTEREST OWNERS

AMERADA PETROLEUM CORPORATION

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:

\_\_\_\_\_

PHILLIPS PETROLEUM COMPANY

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:

\_\_\_\_\_

PAN AMERICAN PETROLEUM CORPORATION

By \_\_\_\_\_  
Attorney in Fact

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:

\_\_\_\_\_

SOUTHERN UNION GAS COMPANY

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:  
\_\_\_\_\_

EL PASO NATURAL GAS PRODUCTS COMPANY

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:  
\_\_\_\_\_

SHELL OIL COMPANY

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:  
\_\_\_\_\_

VAL R. REESE AND ASSOC., INC.

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:  
\_\_\_\_\_

STATE OF OKLAHOMA )  
 ) SS.  
COUNTY OF TULSA )

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of SUNRAY MID-CONTINENT OIL COMPANY, a Delaware 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.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
 ) SS.  
COUNTY OF \_\_\_\_\_ )

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of AMERADA PETROLEUM CORPORATION, a Delaware 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.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
 ) SS.  
COUNTY OF \_\_\_\_\_ )

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of PHILLIPS PETROLEUM COMPANY, a Delaware 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.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of PAN AMERICAN PETROLEUM CORPORATION, a \_\_\_\_\_ 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.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of SOUTHERN UNION GAS COMPANY, a \_\_\_\_\_ 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.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of EL PASO NATURAL GAS PRODUCTS COMPANY, a \_\_\_\_\_ 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.

My commission expires:

\_\_\_\_\_  
Notary Public



## EXHIBIT " D "

PASO-T-1955-2

Attached to and made a part of UNIT OPERATING AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE CENTRAL BISTI  
LOWER GALLUP SAND UNIT AREA, COUNTY OF SAN JUAN, STATE  
OF NEW MEXICO

# ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

### 2. Statements and Billings

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

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

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

C. Statements as follows:

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

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

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

### 3. Payments by Non-Operator

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

### 4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

### 5. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

## II. DEVELOPMENT AND OPERATING CHARGES

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

### 1. Rentals and Royalties

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

### 2. Labor

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

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

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

### 3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

### 4. Material

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

### 5. Transportation

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

A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

<u>WELL BASIS (Rate Per Well Per Month)</u>	
<u>DRILLING WELL RATE</u>	
Well Depth	\$200.00
Each Well	\$35.00
First Five	\$35.00
Next Five	\$35.00
All Wells Over Ten	\$35.00

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

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's **District Production** office located at or near **FARMINGTON, NEW MEXICO** (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 the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

A. Premium paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier. B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

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

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

"The cost of contract services and utilities procured from outside sources;  
B. Use of Operator's Equipment and Facilities;  
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities;"

b. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

- (4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
- (5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.
- (6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.
- (7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.
- (8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.
- C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.
- D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.
- E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

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

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

LOCAL WAREHOUSING COSTS INCLUDED IN DISTRICT EXPENSE.

NONE CHARGEABLE ON CENTRAL STOCKS.

### 14. Other Expenditures

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

## III. BASIS OF CHARGES TO JOINT ACCOUNT

### 1. Purchases

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

### 2. Material Furnished by Operator

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

#### A. New Material (Condition "A")

- (1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on car-load basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
- (2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.
- (3) Cash discount shall not be allowed.

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

- (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.
- (2) Material which cannot be classified as Condition "B" but which,
  - (a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
  - (b) Is serviceable for original function but substantially not suitable for reconditioning,
 shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.
- (3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- (4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

### 3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

### 4. Warranty of Material Furnished by Operator

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

### 5. Operator's Exclusively Owned Facilities

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

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

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

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

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

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

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

**IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL**

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

**1. Material Purchased by the Operator or Non-Operator**

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

**2. Division in Kind**

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

**3. Sales to Outsiders**

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

**V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT**

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

**1. New Price Defined**

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

**2. New Material**

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

**3. Good Used Material**

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

A. At seven and one-half per cent (7½%) of current new price if material was charged to joint account as new, or

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

**4. Other Used Material**

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

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

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

**5. Bad-Order Material**

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

**6. Junk**

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

**7. Temporarily Used Material**

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

**VI. INVENTORIES**

**1. Periodic Inventories, Notice and Representation**

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

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

**2. Reconciliation and Adjustment of Inventories**

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

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

**3. Special Inventories**

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

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of SHELL OIL COMPANY, a Delaware corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and that said \_\_\_\_\_ acknowledged said instrument to be the free act and deed of said corporation.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of VAL R. REESE AND ASSOC., INC., a \_\_\_\_\_ 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.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of \_\_\_\_\_, a \_\_\_\_\_ 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.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of \_\_\_\_\_, a \_\_\_\_\_ 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.

My commission expires:

\_\_\_\_\_  
Notary Public

**UNIT AGREEMENT**  
**FOR THE DEVELOPMENT AND OPERATION**  
**OF THE**  
**CENTRAL BISTI LOWER GALLUP SAND UNIT AREA**  
**COUNTY OF SAN JUAN**  
**STATE OF NEW MEXICO**

**TABLE OF CONTENTS**

**INDEX**  
**PREAMBLE**  
**AGREEMENT PROPER**  
**TRACT MAP . . . . . EXHIBIT "A"**  
**TRACT DATA . . . . . EXHIBIT "B"**  
**PERCENTAGE PARTICIPATION . . . EXHIBIT "C"**  
**CERTIFICATION - DETERMINATION**  
**CERTIFICATE OF APPROVAL**

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
CENTRAL BISTI LOWER GALLUP SAND UNIT AREA  
COUNTY OF SAN JUAN  
STATE OF NEW MEXICO

Table of Contents

Index

Preamble

Agreement Proper

Tract Map . . . . . Exhibit "A"

Tract Data . . . . . Exhibit "B"

Percentage Participation . . Exhibit "C"

Certification — Determination

Certificate of Approval

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
CENTRAL BISTI LOWER GALLUP SAND UNIT AREA  
COUNTY OF SAN JUAN  
STATE OF NEW MEXICO

I N D E X

SECTION		PAGE
1	Enabling Act and Regulations . . . . .	3
2	Unit Area . . . . .	3
3	Unitized Land and Unitized Substances. . . . .	6
4	Unit Operator. . . . .	6
5	Resignation or Removal of Unit Operator. . . . .	7
6	Successor Unit Operator . . . . .	8
7	Accounting Provisions and Unit Operating Agreement . . . . .	8
8	Rights and Obligations of Unit Operator. . . . .	9
9	Discovery . . . . .	9
10	Plan of Further Development and Operation. . . . .	10
11	Participation . . . . .	11
12	Allocation of Production. . . . .	14
13	Development or Operation of Non-Participating Land. . . . .	19
14	Royalty Settlement. . . . .	20
15	Rental Settlement. . . . .	21
16	Conservation . . . . .	22
17	Drainage. . . . .	22
18	Leases and Contracts Conformed and Extended. . . . .	22
19	Covenants Run With Land. . . . .	26
20	Effective Date and Term. . . . .	26



I N D E X

(continued)

SECTION		PAGE
21	Rate of Prospecting, Development, and Production . . . . .	27
22	Appearances . . . . .	27
23	Notices . . . . .	28
24	No Waiver of Certain Rights . . . . .	28
25	Unavoidable Delay . . . . .	28
26	Fair Employment . . . . .	29
27	Loss of Title. . . . .	29
28	Non-Joinder and Subsequent Joinder . . . . .	30
29	Counterparts . . . . .	31
30	Taxes . . . . .	31
31	Conflict of Supervision . . . . .	31
32	No Partnership. . . . .	32
33	Border Agreements . . . . .	32

###

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
CENTRAL BISTI LOWER GALLUP SAND UNIT AREA

COUNTY OF SAN JUAN  
STATE OF NEW MEXICO  
NO. \_\_\_\_\_

THIS AGREEMENT entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 1959, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

W I T N E S S E T H:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 7, Art. 11, Sec. 39, N. M. Statutes 1953 Annot.), to consent to and approve the development or

operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 7, Art. 11, Sec. 41, N. M. Statutes 1953 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the rules and regulations governing the leasing of restricted allotted and tribal Indian lands for oil and gas except allotments made to the members of the Five Civilized Tribes and Osage Indians in Oklahoma, promulgated by the Secretary of the Interior (25 C.F.R. 172.24(c) ) under and pursuant to the Allotted Land Leasing Act of March 3, 1909, 35 Stat. 783, 25 U.S.C. Sec. 396 and the Tribal Land Mineral Leasing Act of May 11, 1938, 52 Stat. 347, 25 U.S.C. Sec. 396a et seq., and the oil and gas leases covering said allotted and tribal Indian lands provide for the commitment of such leases to a cooperative or unit plan of development or operation; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as "the Commission") is authorized by an Act of the Legislature (Chap. 72, Laws 1935; Chap. 65, Art. 3, Sec. 14 N. M. Statutes 1953 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Central Bisti Lower Gallup Sand Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary recovery operations, to conserve natural resources, prevent waste and secure other benefits obtainable through development and

operation of the Bisti Lower Gallup Sand subject to this agreement under the terms, conditions and limitations herein set forth.

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

1. **ENABLING ACT AND REGULATIONS.** The Acts of March 3, 1909, May 11, 1938, and the Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal and Indian lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal and non-Indian lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the state in which the non-Federal land and non-Indian land is located, are hereby accepted and made a part of this agreement.

2. **UNIT AREA.** The area specified on the map attached hereto marked Exhibit "A" is hereby designated and is recognized as constituting the Central Bisti Lower Gallup Sand Unit Area hereinafter referred to as "Unit Area", containing 7388.46 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the Unit Area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party.

Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the Unit Area render such revision necessary, or when requested by the Oil and

Gas Supervisor, hereinafter referred to as "Supervisor", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner", and not less than seven copies of the revised exhibits shall be filed with the Supervisor and copies thereof shall be filed with the Commissioner and the Oil Conservation Commission of the State of New Mexico. The Commissioner of Indian Affairs shall hereafter be referred to as the "Indian Commissioner".

The above described Unit Area shall, when practicable, be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area, whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, with concurrence of at least 65% of the voting interest or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", after preliminary concurrence by the Director, or on demand of the Commissioner and Commission, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the Unit Area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

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

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, Commissioner and the Commission evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the Director, Commissioner and the Commission become effective as of the date prescribed in the notice thereof.

(e) All legal subdivisions of unitized lands (i.e. 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys, however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within 5 years after the first day of the month following the effective date of this agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the Unit Area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as drilling operations are continued diligently, with not more than 90 days time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 7 years after said first day of the month following the effective date of this agreement shall be eliminated as above specified. Determination of creditable "Unavoidable Delay" time shall be made by Unit Operator and subject to the approval of the Director and Commissioner. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director, Commissioner and the Commission and promptly notify all parties in interest.

If conditions warrant extension of the 7-year period specified in this Subsection 2(e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interest and 60% of the current unitized basic royalty interests (exclusive of the basic royalty interests of the United States or of the State of New Mexico), on a total nonparticipating-acreage basis, respectively, with approval of the Director and Commissioner, provided such extension is submitted to the Director and Commissioner not later than 60 days prior to the expiration of the said 7-year period.

Any expansion of the Unit Area pursuant to this section which embraces lands theretofore eliminated pursuant to this Subsection 2(e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All oil and gas in the hereinabove described lands committed to this agreement, as to the Bisti Lower Gallup Sand, are unitized under the terms of this agreement and are herein called "unitized substances", and said lands shall constitute said lands herein referred to as "unitized lands" or "lands subject to this agreement".

The Bisti Lower Gallup Sand shall be construed to mean the sand and reservoir encountered in the drilling by Amerada Petroleum Corporation of its Joan White # 1 Well between the depths of 4739 feet and 4872 feet as shown by the Schlumberger electric log of said well, which well is located in the SE $\frac{1}{4}$  of SW $\frac{1}{4}$  Section 9, T. 25 N, R. 12 W, San Juan County, New Mexico.

4. UNIT OPERATOR. Sunray Mid-Continent Oil Company is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties of Unit Operator for the development and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such interest is owned by it.

The term "working interest owner", as used herein shall mean the owner of such an interest committed hereto as may be obligated to bear or share a portion of all costs and expenses of drilling, developing, producing and operating the unitized land under this agreement and the Unit Operating Agreement.

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 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Director, Commissioner and the Commission, and until all wells then drilled hereunder are placed in satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and by the Commission as to State lands, unless a new Unit Operator shall have been selected and approved and 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 or default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interest determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Director and 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 Unit Operator and shall, not later than 30 days before such resignation or removal becomes effective, appoint a common agent 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 interests in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations as owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

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 by affirmative vote of at least Sixty-Five (65%) per cent of their voting interests, based on the percentage participations assigned to tracts in the participating area, select a successor Unit Operator; provided, however, that should any working interest owner own a voting interest of more than Thirty-Five (35%) per cent, the vote of said party shall not serve to disapprove the selection of a new Unit Operator approved by Eighty (80%) per cent or more of the voting interests of the remaining working interest owners and provided, further, that the Unit Operator shall not vote to succeed itself and its voting interest shall not be counted in a vote concerning its removal as the Unit Operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Director and Commissioner.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. All costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the working interest owners, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the working interest owners, whether one or more, separately or collectively. Any agreement or agreements entered into between the working

interest owners and the Unit Operator, as provided in this section whether one or more, are herein referred to as the "Unit Operating Agreement". Such Unit Operating Agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other 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 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. Three (3) true copies of any Unit Operating Agreement executed pursuant to this section shall be filed with the Supervisor and one copy with the Commissioner.

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 including surface rights, which are necessary or convenient for the prospecting for, producing, storing, allocating, and distributing the unitized substances, are hereby granted and 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, lease, royalty interest, working interest, operating agreement or communitization 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. DISCOVERY. Inasmuch as wells capable of producing unitized substances in paying quantities (to wit: quantities sufficient to repay the

cost of drilling, and producing operations, with a reasonable profit) from the Bisti Lower Gallup Sand have already been drilled, tested and completed within the Unit Area and production in paying quantities is currently being taken therefrom, no initial test well is required under the terms of this Unit Agreement.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. It is agreed that the unitized land will be operated under a plan of pressure maintenance or some form of secondary recovery in order to effect the greatest recovery of unitized substances, prevent waste and conserve natural resources. The Unit Operator is authorized to inject gas, oil, liquefied petroleum gas, brine, water or a combination of said substances and any one or more of said substances, irrespective of whether produced from the Bisti Lower Gallup Sand, into the Bisti Lower Gallup Sand through any well or wells now or hereafter completed therein; provided, however, that the above operations may be conducted by Unit Operator only in accordance with a plan of operation approved by the Supervisor, Commissioner and the Commission. The parties hereto hereby grant to the Unit Operator the use of brine or water or both from any formation within the Unit Area for injecting into the Bisti Lower Gallup Sand.

On or before the effective date of this agreement, Unit Operator shall submit for the approval of the Supervisor, Commissioner and the Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, Commissioner and the Commission, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time, before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor, Commissioner and the Commission a plan or plans for an additional specified period for the development and operation of the unitized land. Said initial plan and all revisions thereof shall be as complete and adequate as the Supervisor and Commissioner may determine to be necessary for timely operations and development consistent herewith. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence

shall be exercised in complying with the obligations of the approved plan of development and operation. After the effective date hereof, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor, Commissioner and the Commission shall be drilled except in accordance with a plan of development approved as herein provided.

11. **PARTICIPATION.** The following described land is recognized as reasonably proved to be productive of unitized substances and is hereby designated and fixed as the "initial participating area":

New Mexico Principal Meridian:

Township 26 North, Range 12 West, N.M.P.M.

Section 31: Lot 4 and SE/4 SW/4 and S/2 SE/4  
Section 32: S/2 SW/4

Township 25 North, Range 12 West, N.M.P.M.

Section 3: SW/4  
Section 4: S/2  
Section 5: Lots 3 and 4 and S/2 NW/4 and S/2 NE/4 and S/2  
Section 6: All  
Section 7: Lots 1 and 2 and E/2 NW/4 and NE/4 and N/2 SE/4  
Section 8: All  
Section 9: All  
Section 10: NW/4  
Section 16: All  
Section 17: N/2 N/2 and SE/4 NE/4 and NE/4 SE/4  
Section 21: N/2 NE/4,

containing 4,713.07 acres, more or less.

In Exhibit "C", attached hereto and made a part hereof, there are listed and numbered the various tracts within the initial participating area, and set opposite each tract is a figure which represents the percentage participation to which such tract shall be entitled if all of said tracts are committed hereto as of the effective date of this agreement. In the event less than all tracts within the initial participating area are committed hereto as of the effective date of this agreement, Unit Operator, as soon as practicable after the effective date of this agreement shall file with the Supervisor, Commissioner and the Commission a schedule of those tracts within the initial participating area committed hereto as of said effective date, which said schedule shall be designated

"Revised Exhibit C" and considered for all purposes as a part of this agreement. Such Revised Exhibit "C" shall set forth opposite each such committed tract within the initial participating area a revised percentage participation therefor, which shall be calculated by using the same tract factors and formula which were used to arrive at the percentage participation of each tract as set out in Exhibit "C" attached hereto but applying the same only to the committed tracts. Such Revised Exhibit "C", unless disapproved by the Director, Commissioner or the Commission within 30 days after filing, shall supersede, effective as of the effective date hereof, the percentage participations set forth in Exhibit "C" attached hereto until a further revision (or revisions) thereof is filed with and approved by the Director, Commissioner and Commission as hereinafter provided. The percentage participation for each tract as shown on Exhibit "C" attached hereto, or as may be shown on the Revised Exhibit "C" as above provided, is calculated and determined in accordance with the tract factors and formula set forth in Section 12 hereof and shall govern the allocation of production on and after the effective date of this Unit Agreement until the participating area is revised and the revised percentage participations are filed with and approved by the Director, Commissioner and the Commission as hereinafter provided.

The participating area established hereby as the initial participating area may be revised from time to time, subject to approval by the Director, Commissioner and the Commission, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities or determined to be essential for unit operations and the participating percentage for each tract in the participating area so enlarged shall be revised, subject to the approval of the Director, Commissioner and Commission in accordance with the same formula and factors as were used to arrive at the percentage participation of each tract as set forth in Exhibit "C"; provided, however, that notwithstanding anything herein which may be construed to the contrary, in any revision of the participating area the revised percentage

participations of the respective tracts which were participating prior to such revision shall remain in the same ratio one to another. The effective date of any revision of the participating area shall be the first of the month following the date on which the revision of the participating area is approved by the Director, Commissioner and the Commission, provided that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director, Commissioner and the Commission. No land shall be excluded from a participating area on account of depletion of the unitized substances. It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities or determined to be essential for unit operations; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Director, Commissioner and the Commission as to the proper definition or redefinition of a participating area, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due (a) the United States and Indians, and (b) the State of New Mexico, which shall be determined by the Supervisor and the Commissioner, respectively, to be held as unearned money until a participating area as revised is finally approved and then applied as earned or returned in accordance with determination of the sum due as Federal, Indian, and State royalty on the basis of such approved participating area.

Whenever it is determined subject to the approval of the Supervisor as to wells on Federal and Indian land and the Commissioner as to wells on State land, that a well drilled under this agreement is not capable of producing in paying quantities or determined not to be essential for unit operations and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the lands

on which the well is located so long as the well is not within a participating area. Settlement for working interest benefits for such a well shall be made as provided in the Unit Operating Agreement.

If, subsequent to the effective date of this agreement, any additional tract within the initial participating area becomes committed hereto under the provisions of Section 28 hereof, or any committed tract within the initial participating area is excluded herefrom under the provisions of Section 27, Unit Operator shall revise Exhibit "C" to show the new percentage participations of the committed tracts in the initial participating area, which revised exhibit shall, upon its filing and approval by the Director, Commissioner and the Commission, supersede as of its effective date, the last previously effective Exhibit "C". In any such revision of Exhibit "C" the revised percentage participations of the respective tracts which were committed hereto prior to such revision shall remain in the same ratio one to another.

12. ALLOCATION OF PRODUCTION. For the purpose of determining any and all benefits accruing under this agreement each tract committed hereto within the participating area shall have allocated to it a proportion, equal to its percentage participation of all unitized substances produced from the unitized land (except any part thereof used in conformity with good operating practices within the Unit Area for drilling, operating, camp and other production or development purposes, for pressure maintenance or secondary recovery operations in accordance with a plan of operation approved by the Supervisor, Commissioner and the Commission, or unavoidably lost). The amount of unitized substances allocated to each tract in the participating area shall be deemed to be produced from such tract. It is hereby agreed that production of unitized substances from any part of the participating area shall be allocated as provided herein regardless of whether oil or gas is being produced from any particular tract committed hereto. If the working interests or the royalty interests in any tract are divided with respect to separate parcels or portions of such tract and owned severally by different persons, the percentage participation assigned to such tract shall, in the absence of a recordable instrument among all owners fixing

the division of ownership be divided among such parcels or portions in proportion to the number of surface acres in each.

The Percentage Participation for each tract in the Participating Area as set forth in Section 11 hereof was determined, and any revisions thereof shall be determined, in accordance with the following formula, which is hereby adopted:

$$\frac{\text{Total Tract Original Stock Tank Oil in Place by Microlog Survey}}{\text{Total Participating Area Original Stock Tank Oil in Place by Microlog Survey}} \times \frac{100}{3}$$

Plus

$$\frac{\text{Total Tract Original Stock Tank Oil in Place by Adjusted Electric Log S. P. Profile}}{\text{Total Participating Area Original Stock Tank Oil in Place by Adjusted Electric Log S. P. Profile}} \times \frac{100}{3}$$

Plus

$$\frac{\text{Total Tract Oil Production during Base Period}}{\text{Total Participating Area Oil Production During Base Period}} \times \frac{100}{3}$$

= Tract Percentage Participation

In connection with the foregoing formula, it is recognized and agreed that the Bisti Lower Gallup Sand as hereinabove defined is a common reservoir consisting of three productive intervals each of which has a different value as to the number of barrels of stock tank oil per acre foot in place. Said productive intervals are referred to herein as Bench 1, Bench 2, and Bench 3, respectively, and are defined as follows:

Bench 1 - shall mean and refer to the same interval of the Bisti Lower Gallup Sand encountered in the Amerada-Joan White # 1 Well between the depths of 4739 feet and 4768 feet as shown by the Schlumberger electric log of said well, which well is located in the SE $\frac{1}{4}$  of SW $\frac{1}{4}$  Sec. 9, T. 25 N, R. 12 W, San Juan County, New Mexico;

Bench 2 - shall mean and refer to the same interval of the Bisti Lower Gallup Sand encountered in the said Amerada-Joan White # 1 Well between the depths of 4768 feet and 4787 feet as shown by the Schlumberger electric log of said well;

Bench 3 - shall mean and refer to the same interval of the Bisti Lower Gallup Sand encountered in said Amerada-Joan White # 1 Well between the depths of 4787 feet and 4872 feet as shown by the Schlumberger electric log of said well.



It is further agreed that the Percentage Participation of each tract in the Participating Area, as set forth in Section 11 hereof, was calculated and determined, and any revision thereof shall be calculated and determined, by application of the foregoing formula in accordance with the following factors, definitions and procedure:

A. The original stock tank oil in place in each tract in the Participating Area and in the Participating Area as a whole, based on microlog survey, were determined as follows:

- (1) The acre feet of productive sand in each of the three benches or intervals of the Bisti Lower Gallup Sand in each tract in the Participating Area was determined from net isopach maps constructed for each of the said respective three benches based on microlog survey made in accordance with acceptable geological and engineering practices and utilizing accurate survey data of the surface area of each tract in the Participating Area.
- (2) The acre feet of productive sand in each of the three benches of the Bisti Lower Gallup Sand in the whole of the Participating Area was then calculated by adding the acre feet of productive sand in each of the three benches in all tracts in the Participating Area.
- (3) It was determined in accordance with the best engineering practices utilizing all of the geological and engineering information available that the original stock tank oil in place per acre foot for each of the three productive benches comprising the Bisti Lower Gallup Sand, based on microlog survey, is as follows:

Bench 1 - 748.6 barrels per acre foot  
Bench 2 - 482.3 barrels per acre foot  
Bench 3 - 432.7 barrels per acre foot

Accordingly, the total stock tank oil in place (by microlog survey) for each bench in each tract in the Participating Area was calculated by multiplying the number of acre feet of each bench in each tract by the appropriate number of barrels of stock tank oil per acre foot in place for each bench as above indicated. Similarly, the total stock tank oil in place (by microlog survey) for each bench in the whole of the Participating Area was calculated by multiplying the number of acre feet of each bench in all tracts in the

Participating Area by the appropriate number of barrels of stock tank oil per acre foot in place for each bench as above indicated.

- (4) The total stock tank oil in place (by microlog survey) in each tract in the Participating Area was then calculated by totalling the stock tank oil in place in all benches in each tract in the Participating Area. Similarly, the total stock tank oil in place (by microlog survey) in the whole of the Participating Area was determined by totalling the stock tank oil in place in all benches in all tracts in the Participating Area.

B. The original stock tank oil in place in each tract in the Participating Area and in the Participating Area as a whole based on electric log self-potential (S. P.) profile were determined as follows:

- (1) The acre feet of productive sand in each of the three benches of the Bisti Lower Gallup Sand in each tract in the Participating Area was determined from net isopach maps constructed for each of the said respective three benches based on electric log self-potential profiles in accordance with acceptable geological and engineering practices and utilizing accurate survey data of the surface area of each tract in the Participating Area. In this connection it is understood that the productive sand thicknesses of each of the three benches as depicted on the said respective net isopach maps represent the non-adjusted productive sand thicknesses (which were determined by planimetering the area under the electric log self-potential profile and dividing by the value of the static self-potential measured on the up the hole Point Lookout Formation) and that in determining the acre feet of productive sand in each bench in each tract the productive sand thicknesses as depicted by said isopachs were adjusted (based on available core analysis) by multiplying the non-adjusted productive sand thicknesses by correction factors for each of the respective benches as follows:

<u>Correction Factor</u>		
Bench 1	-	1.0203
Bench 2	-	.6204
Bench 3	-	.4634

- (2) The acre feet of productive sand in each of the three benches of the Bisti Lower Gallup Sand in the whole of the Participating Area was then calculated by adding the acre feet of productive sand in each of the three benches in all tracts in the Participating Area.
- (3) It was determined in accordance with the best engineering practices utilizing all available engineering and geological information available that the original stock tank oil in place per acre foot for each of the said three productive benches comprising the Bisti Lower Gallup Sand based on electric log self-potential profiles is as follows:

Bench 1 - 652.0 barrels per acre foot  
Bench 2 - 397.1 barrels per acre foot  
Bench 3 - 407.0 barrels per acre foot

Accordingly, the total stock tank oil in place (by electric log self-potential) for each bench in each tract in the Participating Area was calculated by multiplying the number of acre feet of each bench in each tract by the appropriate number of barrels of stock tank oil per acre foot in place for each bench as above indicated. Similarly, the total stock tank oil in place (by electric log self-potential) for each bench in the whole of the Participating Area was calculated by multiplying the number of acre feet of each bench in all tracts in the Participating Area by the appropriate number of barrels of stock tank oil per acre foot in place for each bench as above indicated.

- (4) The total stock tank oil in place (by electric log self-potential) in each tract in the Participating Area was then calculated by totalling the stock tank oil in place in all benches in each tract in the Participating Area. Similarly, the total stock tank oil in place (by electric log self-potential) in the whole of the Participating Area was determined by totalling the stock tank oil in place in all benches in all tracts in the Participating Area.

C. The tract oil production during the base period and the Participating Area oil production during the base period were determined as follows:

- (1) For the purposes of this agreement the "base period" shall mean and refer to the production of oil during the third quarter of 1958 (July 1, 1958 thru September 30, 1958); provided, however, that the "base period" for any well not having produced three months prior to July 1, 1958 shall be the last three months of the first six months in which said well has produced. However, whenever a well is to be converted to an injection well before producing it for a sufficient period to qualify as to the base production period under the formula set forth herein, the production for

the base period may be calculated at any rate up to the maximum allowable which may be agreed to by 65% of the working interest owners and approved by the Director and the Commissioner.

- (2) All oil production obtained from each tract during the base period, as above defined, constitutes "total tract oil production during base period" and the total of all oil production obtained during the base period from all tracts in the participating area constitutes "total participating area oil production during base period"; provided, however, that only oil production which is not in excess of the top allowable in effect for the Bisti Field during the third quarter of 1958 (i.e. 52 barrels per well for all wells having 40 acres allocated thereto and 104 barrels per well for all wells having 80 acres allocated thereto) shall be taken into account in computing "total tract oil production during base period" and "total participating area oil production during base period."

D. The Percentage Participation for each tract in the Participating Area was then calculated by application of the formula hereinabove first set forth in this section.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND. Any party or parties hereto owning or controlling the working interest or a majority of the working interests in any unitized land having thereon a regular well location may, with the approval of the Supervisor as to Federal and Indian land and the Commissioner as to State land, and subject to the provisions of the Unit Operating Agreement, at such party's sole risk, cost and expense, drill a test well to test the Bisti Lower Gallup Sand Formation if such location is not within a participating area, or drill any well not mutually agreed to by all interested parties, unless within 90 days from receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled, as aforesaid, by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be enlarged as provided in this agreement, and the party or parties paying the cost of drilling such well shall be reimbursed as provided in the Unit Operating Agreement for the cost of drilling such well, and the well shall thereafter be

operated by Unit Operator in accordance with the terms of this agreement and the Unit Operating Agreement.

If any well drilled, as aforesaid, by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The United States, the Indians, and the State of New Mexico and all royalty owners who, under existing contracts, are entitled to take in kind a share of the unitized substances produced from any tract, shall hereafter be entitled to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for royalty interests not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases except that said royalties shall be computed in accordance with the terms of this agreement.

If gas obtained from lands 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 Supervisor, Commissioner and the Commission, 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 Supervisor and the Commissioner; 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 Supervisor and 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 Supervisor and Commissioner.

Royalty due the United States and the Indians shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all unitized substances on the basis of the amounts hereof allocated to unitized Federal and Indian land as provided herein at the rate specified in the respective Federal and Indian leases, or at such lower rate or rates as may be authorized by law or regulation; provided that for leases on which the royalty rate depends on the daily average production per well such average production shall be determined in accordance with the operating regulations as though the participating area were a single consolidated lease.

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

15. RENTAL SETTLEMENT. Rental 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 or minimum royalty for lands of the United States and the Indians subject to this agreement shall be paid at the rate specified in the respective leases from the United States and the Indians unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary of the Interior (hereinafter called "Secretary") or his duly authorized representative.

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rate specified in the respective leases, or may be reduced or suspended under the order of the Commissioner pursuant to applicable laws and regulations.

With respect to any lease on non-Federal and non-Indian land containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included within the participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of such substances as to prevent waste as defined by or pursuant to State or Federal law or regulation.

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

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas 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 Secretary as to Federal and Indian leases and the Commissioner as to State leases shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter,

change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal, Indian, and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and 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 and producing 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 the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary (or his duly authorized representative) and the Commissioner shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil or gas of lands other than those of the United States and



Indians committed to this agreement, which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease and any Indian lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such land remains committed hereto.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States and of the Indians committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, 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 the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(b) of the Act, as amended by the Act of July 29, 1954 (68 Stat. 583, 585): "Any (Federal) lease hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however,

That any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(h) Any Indian lease having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof.

(i) 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 portion committed and as to the portion not committed and the terms of such leases shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if Unitized Substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement or some part of the lands embraced in such State lease is included in the Participating Area at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of Unitized Substances, said lease shall continue in full force and effect as to all

of the lands embraced therein, so long thereafter as Unitized Substances are produced in paying quantities from any portion of said lands.

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

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Director, Commissioner, and the Indian Commissioner, or their duly authorized representatives, as of the first day of the month following the date of approval by the Director and shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities, i.e. in this particular instance in quantities sufficient to pay for the cost of producing same, and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production and so long thereafter as such unitized substances can be produced as aforesaid. This agreement shall remain in effect during any period of suspension approved by the Director and the Commissioner as provided for in Section 18(c) hereof.

This agreement may be terminated at any time by the working interest owners whose voting interests aggregate not less than 90%, subject to the approval of the Director and the Commissioner; notice of any such approval shall be given by Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law. It is agreed, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Department of the Interior and the Commission and to appeal from orders issued under the regulations of said Department and/or

Commission or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, the Commission, or other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

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

24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right to defense as to the validity or invalidity of any law of the state wherein said unitized land is 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.

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or to 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 accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

26. FAIR EMPLOYMENT. In connection with the performance of work under this agreement, the Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: Employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the non-discrimination clause.

The Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for commercial supplies or raw materials.

The Operator shall also comply with the terms and conditions of the Indian leases while engaged in operations thereon with respect to the employment of available Indian labor.

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this 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 the title to any royalty, working interest or any other interest 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 Federal land, Indian land, and State land or leases, no payments of funds due the United States, Indians, or the State of New Mexico should be withheld, but such funds to the United States and Indians shall be deposited as directed by the Supervisor, and such funds of the State shall be deposited as directed by the Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned in accordance with the final settlement.

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the Unit Area fails or refuses to subscribe to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director, the Commissioner and the Unit Operator prior to the approval of this agreement by the Director. Any such tract effectively committed as to the working interest and not so withdrawn shall be considered unitized, and any necessary adjustments of royalty occasioned by failure of the royalty and record owner to join will be for the account of the corresponding working interest owner. Any oil or gas interest in lands within the Unit Area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement and, if the interest is a working interest, by the owner of such interest also subscribing to the Unit Operating Agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the Unit Operating Agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. Joinder to 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. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor and the Commissioner of duly executed counterparts of all or any

papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Director or the Commissioner.

29. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area; provided, if this agreement has not been approved by the Director and the Commissioner prior to January 1, 1960, it shall thereupon terminate and be of no further force and effect.

30. TAXES. The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered and sold from the land subject to this contract after the effective date of this agreement, or upon the proceeds or net proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to the royalty owners having interests in said tract, and may currently retain and deduct sufficient of the unitized substances or derivative products, or net proceeds thereof from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States, Indians, or the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

31. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working interest owners or any of them shall be subject to any forfeiture, termination, or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part



to comply with any applicable provisions thereof to the extent that the said Unit Operator, working interest owners, or any of them are hindered, delayed or prevented from complying therewith by reason of the failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

32. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, express or implied, or any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

33. BORDER AGREEMENTS. Subject to the approval of the Director and the Commissioner, the Unit Operator, with concurrence of 65% of the Working Interest Owners may enter into a border-protection agreement or agreements with the Working Interest Owners of adjacent lands along the exterior boundary of the Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

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

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:

\_\_\_\_\_

UNIT OPERATOR AND WORKING INTEREST OWNER

SUNRAY MID-CONTINENT OIL COMPANY

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

\_\_\_\_\_

WORKING INTEREST OWNERS

AMERADA PETROLEUM CORPORATION

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:

\_\_\_\_\_

PHILLIPS PETROLEUM COMPANY

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:

\_\_\_\_\_

PAN AMERICAN PETROLEUM CORPORATION

By \_\_\_\_\_  
Attorney-in-Fact

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature;

\_\_\_\_\_

SOUTHERN UNION GAS COMPANY

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:

\_\_\_\_\_

EL PASO NATURAL GAS PRODUCTS COMPANY

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:

\_\_\_\_\_

SHELL OIL COMPANY

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature:

\_\_\_\_\_

VAL R. REESE AND ASSOC., INC.

By \_\_\_\_\_  
Vice President

\_\_\_\_\_  
address

ATTEST;

\_\_\_\_\_  
Secretary

Date of Signature:

\_\_\_\_\_

Date of Signature:

\_\_\_\_\_

Witness:

\_\_\_\_\_

\_\_\_\_\_  
LAWRENCE C. KELLY, TRUSTEE

\_\_\_\_\_  
address

\_\_\_\_\_

Date of Signature:

\_\_\_\_\_

Witness:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
address

\_\_\_\_\_

Date of Signature:

\_\_\_\_\_

Witness:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
address

\_\_\_\_\_

STATE OF OKLAHOMA )  
 ) SS.  
COUNTY OF TULSA )

On this \_\_\_\_\_ day of \_\_\_\_\_, 1959, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of SUNRAY MID-CONTINENT OIL COMPANY, a Delaware 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.

\_\_\_\_\_  
Notary Public

My commission expires:

STATE OF \_\_\_\_\_ )  
 ) SS.  
COUNTY OF \_\_\_\_\_ )

On this \_\_\_\_\_ day of \_\_\_\_\_, 1959, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of AMERADA PETROLEUM CORPORATION, a Delaware 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.

\_\_\_\_\_  
Notary Public

My commission expires:

STATE OF \_\_\_\_\_ )  
 ) SS.  
COUNTY OF \_\_\_\_\_ )

On this \_\_\_\_\_ day of \_\_\_\_\_, 1959, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of PHILLIPS PETROLEUM COMPANY, a Delaware 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.

\_\_\_\_\_  
Notary Public

My commission expires:

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 1959, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of PAN AMERICAN PETROLEUM CORPORATION, a \_\_\_\_\_ 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.

\_\_\_\_\_  
Notary Public

My commission expires:

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 1959, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of SOUTHERN UNION GAS COMPANY, a \_\_\_\_\_ 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.

\_\_\_\_\_  
Notary Public

My commission expires:

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 1959, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of EL PASO NATURAL GAS PRODUCTS COMPANY, a \_\_\_\_\_ 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.

\_\_\_\_\_  
Notary Public

My commission expires:

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 1959, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of SHELL OIL COMPANY, a Delaware corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and that said \_\_\_\_\_ acknowledged said instrument to be the free act and deed of said corporation.

\_\_\_\_\_  
Notary Public

My commission expires:

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 1959, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of VAL R. REESE AND ASSOC., INC., a \_\_\_\_\_ 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.

\_\_\_\_\_  
Notary Public

My commission expires:

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 1959, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of \_\_\_\_\_, a \_\_\_\_\_ 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.

\_\_\_\_\_  
Notary Public

My commission expires:

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 1959, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is Vice President of \_\_\_\_\_, a \_\_\_\_\_ 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.

\_\_\_\_\_  
Notary Public

My commission expires:

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_, to me known to be the person described in and who executed the foregoing instrument, and acknowledges that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_, to me known to be the person described in and who executed the foregoing instrument, and acknowledges that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_ before me personally appeared \_\_\_\_\_, to me known to be the person described in and who executed the foregoing instrument, and acknowledges that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My commission expires:

\_\_\_\_\_  
Notary Public



LARGE FORMAT  
EXHIBIT HAS  
BEEN REMOVED  
AND IS LOCATED  
IN THE NEXT FILE

EXHIBIT "B"

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP  
OF ALL LANDS WITHIN THE CENTRAL BISTI LOWER GALLUP SAND UNIT  
TOWNSHIPS 25 AND 26 NORTH, RANGE 12 WEST, SAN JUAN COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION	No. OF ACRES	SERIAL No. & DATE OF LEASE OR APPLICATION	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST PERCENTAGE
<u>FEDERAL LANDS</u>							
1	<u>T26N, R12W</u> Sec. 31: Lots 2, 3, 4 SE/4 NW/4, S/2 NE/4 SE/4, E/2 SW/4	2038.78	SF-078056 2-1-48 H.B.P.	USA 12 1/2%	SUNRAY MID-CONTINENT OIL COMPANY	NONE	SUNRAY MID-CONTINENT OIL COMPANY - AL
	<u>T25N, R12W</u> Sec. 5: Lots 3 & 4, S/2 NW/4 Sec. 6: (ALL) Lots 1, 2, 3, 4, 5, 6 & 7 SE/4 NW/4, S/2 NE/4, E/2 SW/4, SE/4 Sec. 7: (ALL) Lots 1, 2, 3 & 4 E/2 NW/4, E/2 SW/4, E/2 Sec. 8: N/2 Sec. 18: Lot 1 & NE/4 NW/4						
2	<u>T25N, R12W</u> Sec. 17: N/2, SE/4, NW/4 SW/4, E/2 SW/4 Sec. 18: NE/4, N/2 SE/4 Sec. 20: NE/4, NE/4 NW/4	1040.00	SF-078058 2-1-48 H.B.P.	USA 12 1/2%	SUNRAY MID-CONTINENT OIL COMPANY	NONE	SUNRAY MID-CONTINENT OIL COMPANY - AL

EXHIBIT "B" (CONTINUED)

3 T25N, R12W  
SEC. 21: N/2, N/2  
SE/4, NE/4  
SW/4

440.00

SF-078065  
2-1-48  
H.B.P.

USA  
12~~25~~

SHELL OIL COMPANY

3~~25~~ of 8/8 DIVIDED SH  
AS FOLLOWS: SH  
G. E. HALL & ALI  
CHRISTINE HALL  
1/18

RALPH LOVE &  
ERMA LOVE  
1/18

HAL C. PECK &  
JOSIE FAY PECK  
1/18

J. F. POSTELLE &  
JESSIE POSTELLE  
1/18

J. R. MARTIN &  
LUCILLE MARTIN  
1/18

J. RALPH STEWART &  
VIOLA STEWART  
1/18

HARRY ADAMS &  
ANNA EVALYN ADAMS  
1/36

C. B. YARBROUGH  
1/36

KATHERINE B.  
YARBROUGH  
1/36

J. HOLT JOWELL &  
LILLIE B. JOWELL  
1/36

EXHIBIT "B" (CONTINUED)

W. H. SLOAN &  
ALBERTA SLOAN  
1/18

ROBERT MURRAY FAS  
EXECUTOR AND TRUST  
UNDER THE WILL OF  
ANDREW FASKEN,  
DECEASED  
1/18

GERALD FITZ-GERALD  
ELIZABETH FITZ-GER  
1/36

ROBERT D. DUDEN &  
NANCY MAE DUDEN  
1/18

REESE CLEVELAND &  
ROSELLE B. CLEVELA  
1/18

FRANK A. SCHLUTZ  
1/18

R. M. BARRON &  
LUCILLE C. BARRON  
1/18

KATHRYN D. ASHBY  
1/36

P. O. SILL  
1/72

LEE ETNA HEDBERT,  
AS HER SEPARATE  
PROPERTY AND ESTA  
1/72

MRS. OLIVE MILLER  
1/32 OF 1/36

EXHIBIT "B" (CONTINUED)

THOMAS M. &  
MINNA GRODIN  
3/32 of 1/36

CHARLES D. &  
LUCY S. KARUTZ  
1/40 of 1/36

GEORGE BIGAR  
1/40 of 1/36

ROBERT B. AARONSON  
1/40 of 1/36

WILLIAM & FLORENCE  
D. DUBILIER  
1/40 of 1/36

WALLACE S. KARUTZ  
1/8 of 1/36

LAWRENCE L. LAVELL  
1/18 of 1/36

MYRON LIDELL  
1/18 of 1/36

MARIE HELENE WEILL  
1/18 of 1/36

BENJAMIN J. &  
HELEN G. PIENKOWSK  
1/16 of 1/36

LEWIS OTERSEN  
1/16 of 1/36

STANLEY F. ZACHARE  
1/16 of 1/36

ALBERT WILKES  
1/16 of 1/36

ALEXANDER S. LO RE  
1/16 of 1/36

DANIEL ALAGNA  
1/16 of 1/36

DOWNNEY ESTATE -  
DEFERRED.  
1/24

CONNOR ESTATE -  
DEFERRED  
1/72

SID WEISS  
1/5 of 1/36

MORRIS LEVINE  
1/5 of 1/36

WILLIAM LEVINE  
1/5 of 1/36

HARRY LIPSHY  
1/5 of 1/36

LEWIS FREED  
1/5 of 1/36

ROBERT MIMS 1/4, E.W.  
MUDGE, JR. 1/4 AND GAS  
PRODUCERS CORP. 1/2 OF  
\$100/ACRE OIL PAYMENT  
OUT OF 1 1/2 OF 8/8

3 1/2 OF 8/8 DIVIDED S  
AS FOLLOWS: A

G. E. HALL &  
CHRISTINE HALL  
1/18

RALPH LOWE &  
ERMA LOWE  
1/18

SHELL OIL COMPANY

USA  
12 1/2%

NM-036254  
2-1-48  
H.B.P.

479.84

4  
T25N, R12W  
SEC. 9: N/2  
SEC. 4: Lots 1 & 2,  
S/2 NE/4

EXHIBIT "B" (CONTINUED)

HAL C. PECK &  
JOSIE FAY-PECK  
1/18

J. F. POSTELLE &  
JESSIE POSTELLE  
1/18

J. R. MARTIN &  
LUCILLE MARTIN  
1/18

J. RALPH STEWART-&  
VIOLA STEWART  
1/18

HARRY ADAMS &  
ANNA EVALYN ADAMS  
1/36

C. B. YARBROUGH  
1/36

KATHERINE B. YARBROUGH  
1/36

J. HOLT JOWELL &  
LILLIE B. JOWELL  
1/36

W. H. SLOAN &  
ALBERTA SLOAN  
1/18

ROBERT MURRAY FASK  
EXECUTOR AND TRUST  
UNDER THE WILL OF  
ANDREW FASKEN,  
DECEASED  
1/18

EXHIBIT "B" (CONTINUED)

GERALD FITZ-GERALD  
ELIZABETH FITZ-GERALD  
1/36

ROBERT D. DUDEN &  
NANCY MAE DUDEN  
1/18

REESE CLEVELAND &  
ROZELLE B. CLEVELAND  
1/18

FRANK A. SCHLUTZ  
1/18

R. M. BARRON &  
LUCILLE C. BARRON  
1/18

KATHRYN D. ASHBY  
1/36

P. O. SILL  
1/72

LEE ETTA HEDBERT  
HER SEPARATE PROPERTY  
AND ESTATE  
1/72

MRS. OLIVE MILLER  
1/32 OF 1/36

THOMAS M. &  
MINNA GRODIN  
3/32 OF 1/36

CHARLES D. &  
LUCY S. KARUTZ  
1/40 OF 1/36

GEORGE BIGAR  
1/40 OF 1/36



EXHIBIT "B" (CONTINUED)

ROBERT B. AARONSON  
1/40 of 1/36

WILLIAM & FLORENCE  
D. DUBILIER  
1/40 of 1/36

WALLACE S. KARUTZ  
1/8 of 1/36

LAWRENCE L. LAVELL  
1/18 of 1/36

MYRON LIDELL  
1/18 of 1/36

MARIE HELENE WEILL  
1/18 of 1/36

BENJAMIN J. AND  
HELEN G. PIENKOWSK  
1/16 of 1/36

LEWIS OTERSEN  
1/16 of 1/36

STANLEY F. ZACHAREK  
1/16 of 1/36

ALBERT WILKES  
1/16 of 1/36

ALEXANDER S. LO RE  
1/16 of 1/36

DANIEL ALAGNA  
1/16 of 1/36

DOWNEY ESTATE -  
DEFERRED  
1/24

CONNOR ESTATE -  
DEFERRED  
1/72

SID WEISS  
1/5 of 1/36

MORRIS LEVINE  
1/5 of 1/36

WILLIAM LEVINE  
1/5 of 1/36

HARRY LIPSHY  
1/5 of 1/36

LEWIS FREED  
1/5 of 1/36

ROBERT MIMS 1/4, E. W. MUDGE, JR. 1/4, & GAS PRODUCERS CORP. 1/2 of \$100/acre OIL PAYMENT OUT OF 1 1/2 OF 8/8

C.H. NYE 2% OF 8/8 TEXACO INC. - ALL W. J. WEAVER 1/2% OF 8/8

(THIS LEASE HELD UNDER OPTION AGREEMENT.)

FIVE FEDERAL TRACTS CONTAINING 4308.62 ACRES OR 58.3155% OF UNIT

STATE LANDS

5 T26N, R12W  
Sec. 32: SW/4 NE/4  
40.00  
SF-078248  
3-1-48  
EXTENDED  
1-31-60  
USA  
12 1/2%

JACK C. TUNSTILL

6 T26N, R12W  
Sec. 32: S/2 SE/4  
80.00  
E-3148-7  
H.B.P.  
STATE OF NEW MEXICO  
12 1/2%

EL PASO NATURAL GAS PRODUCTS CO.

JOHN BURROUGHS & JEAN BURROUGHS 5% OF 8/8 EL PASO NATURAL GAS PRODUCTS COMPANY -

7 T25N, R12W  
Sec. 16: All  
640.00  
E-6597-2  
H.B.P.  
STATE OF NEW MEXICO  
12 1/2%

LAWRENCE C. KELLY, TRUSTEE 1/2 EL PASO NATURAL GAS PRODUCTS COMPANY 1/2

AS TO N/2 OF SEC.16 T25N, R12W LAWRENCE C. KELLY, TRUSTEE - 1/2 LAWRENCE C. KELLY, TRUSTEE, AND INDIVIDUALLY 4.75% OF 8/8 EL PASO NATURAL GAS PRODUCTS CO. - 1/2

J. D. MIDDLETON .25% OF 8/8

EXHIBIT "B" (CONTINUED)

				AS TO S/2 Sec. 16
				<u>T25N, R12W</u>
				LAWRENCE C. KELLY,
				TRUSTEE AND
				INDIVIDUALLY
				17.25% of 8/8
8	<u>T26N, R12W</u> Sec. 32: SE/4 NE/4, S/2 NW/4, NE/4 SW/4, N/2 SE/4	240.00	E-9791 2-21-56	J. D. MIDDLETON
				.25% of 8/8
				NONE
9	<u>T26N, R12W</u> Sec. 32: NW/4 SW/4	40.00	B-11370-43 8-3-44 H.B.P.	PHILLIPS PETROLEUM COMPANY - ALL
				JAMES PALMER
				3% of 8/8
10	<u>T26N, R12W</u> Sec. 32: S/2 SW/4	80.00	B-11370-31 H.B.P.	PHILLIPS PETROLEUM COMPANY - ALL
				J. FELIX HICKMAN
				7% of 8/8
				FIRST NAT'L BANK
				OF ALBUQUERQUE AS
				TRUSTEE
				FOR JEFFERY LEIGH
				HICKMAN
				2% of 8/8
				CAROL T. PAYNE
				1% of 8/8
				MERLE HICKMAN
				OSCAR M. LOVE - 1
				FRED LUTHY - 1/32
				JAMES E. SPERLING
				1/32
				EZRA M. THOMPSON
				1/32

FIVE STATE OF NEW MEXICO TRACTS CONTAINING 1080.00 ACRES OR 14.6174% OF UNIT ARE

## EXHIBIT "B" (CONTINUED)

TRACT NUMBER	DESCRIPTION	NO. OF ACRES	CONTRACT NUMBER AND DATE	BASIC ROYALTY AND ALLOTMENT NUMBER	OVERRIDING ROYALTY	WORKING INTEREST PERCENTAGE
-----------------	-------------	-----------------	-----------------------------	---------------------------------------	-----------------------	-----------------------------------

## INDIAN LANDS

11	<u>T25N, R12W</u> Sec. 5: SW/4	160.00	NAVAJO ALLOTTED CONTRACT No. 14-20-603-1292 H.B.P.	HOSKA DA WOT (JIMMIE) A/K/A JIM WHITE A/K/A JIM WHITE BENALLY - <del>12 1/2</del> (059289)	NONE	PHILLIPS PETRO COMPANY - ALL
12	<u>T25N, R12W</u> Sec. 9: SE/4	160.00	NAVAJO ALLOTTED CONTRACT No. 14-20-603-1228 H.B.P.	I TAH NIP PAH (MARY) (MARY WHITE) A/K/A MARY WHITE CHARLEY <del>12 1/2</del> (059286)	NONE	PHILLIPS PETRO COMPANY - ALL
13	<u>T25N, R12W</u> Sec. 5: Lots 1 & 2 S/2 NE/4 (NE/4)	159.92	NAVAJO ALLOTTED CONTRACT No. 14-20-603-1448 H.B.P.	TOTAL BASIC ROYALTY <del>12 1/2</del> DIVIDED AS FOLLOWS: KA DA PAH A/K/A MRS. HERBERT WILLIAMS (059285) - 29/64  GLE NA NUP PAH 10/64  HOSKA DA WOT (JIMMIE) A/K/A JIM WHITE (059289) - 5/64  AH NI NE PAH A/K/A SALENA WHITE (059288) - 5/64  I NI PAH A/K/A JOAN WHITE (059287) 5/64  SAM BENALLY 5/64	NONE	EL PASO NATURAL PRODUCTS COM ALL

			I TAH NIP PAH (MARY WHITE) A/K/A MARY WHITE CHARLEY (059286) - 5/64		
14	<u>T25N, R12W</u> Sec. 3: SW/4	160.00	NAVAJO ALLOTTED CONTRACT No. 14-20-603-1423 H.B.P.	KA DA PAH A/K/A MRS. HERBERT WILLIAMS (059285) - 12 2/3%	NONE  PAN AMERICAN PETROLEUM CORPORATION - ALL
15	<u>T25N, R12W</u> Sec. 4: SE/4	160.00	NAVAJO ALLOTTED CONTRACT No. 14-20-603-1424 H.B.P.	TOTAL BASIC ROYALTY 12% DIVIDED AS FOLLOWS: NA PAH (JOHN) A/K/A WILLIAM L. BENALLY (059292) - 104/896	NONE  PAN AMERICAN PETROLEUM CORPORATION - ALL
			HOSKA DA WOT A/K/A JIM WHITE (059289) - 132/896		
			AH NI NE PAH A/K/A SALENA WHITE (059288) - 132/896		
			I NI PAH A/K/A JOAN WHITE, A/K/A MRS. JOAN HARRISON (059287) - 132/896		
			I TAH NIP PAH (MARY WHITE) A/K/A MARY WHITE CHARLEY (059286) 132/896		
			JOE BLACKIE (CENUS #11118) - 38/896		
			USHKA NAH NO TAH A/K/A ERNEST BLACKIE - 57/896		
			MABEL BLACKIE - 57/896		

16 T25N, R12W  
Sec. 10; NW/4

160.00  
NAVAJO ALLOTTED CONTRACT  
No. 14-20-603-1449  
H.B.P.

GLE NA NUP PAH A/K/A  
MRS. JUAN DEVORE  
56/896

KA DA PAH A/K/A  
MRS. HERBERT WILLIAMS  
(059285) -  
56/896

TOTAL BASIC ROYALTY 12<sup>1</sup>/<sub>2</sub>%  
DIVIDED AS FOLLOWS:  
GLE NA NUP PAH  
2/8  
NONE

SOUTHERN UNION  
COMPANY - ALL

KA DA PAH A/K/A -  
MRS. HERBERT WILLIAMS  
(059285) -  
1/8

HOSKA DA VOT (JIMMIE) A/K/A  
JIM WHITE (059289) -  
1/8

AH NI NE PAH A/K/A  
SALENA WHITE (059288) -  
1/8

I NI PAH A/K/A JOAN WHITE  
(059287) -  
1/8

I TAH NIP PAH (MARY WHITE)  
A/K/A MARY WHITE CHARLEY  
(059286) -  
1/8

SAM BENALLY -  
1/8

EXHIBIT "B" (CONTINUED)

			KA DA PAH A/K/A MRS. HERBERT WILLIAMS (059285) - 1/8		
			HOSKA DA WOT (JIMMIE) A/K/A JIM WHITE (059289) - 1/8		
			AH NI NE PAH A/K/A SALENA WHITE (059288) - 1/8		
			I NI PAH A/K/A JOAN WHITE A/K/A MRS. JOAN HARRISON (059287) 1/8		
			I TAH NIP PAH (MARY WHITE) A/K/A MARY WHITE CHARLEY (059286) - 1/8		
			SAM BENALLY 1/8		
20.	<u>T25N, R12W</u> SEC. 8: SW/4	160.00	NAVAJO ALLOTTED CONTRACT No. 14-20-603-324 10-7-53 H.B.P.	NONE	AMERADA PETROLEUM CORPORATION - ALL
21	<u>T25N, R12W</u> SEC. 8: SE/4	160.00	NAVAJO ALLOTTED CONTRACT No. 14-20-603-325 10-7-53 H.B.P.	NONE	AMERADA PETROLEUM CORPORATION - ALL
22.	<u>T25N, R12W</u> SEC. 9: SW/4	160.00	NAVAJO ALLOTTED CONTRACT No. 14-20-603-326 H.B.P.	NONE	AMERADA PETROLEUM CORPORATION - ALL

EXHIBIT "B" (CONTINUED)

23 T26N, R12W  
Sec. 33: S/2 SW/4

80.00

NAVAJO ALLOTTED-CONTRACT  
No. 14-20-603-327  
11-9-53

NA PAH (JOHN) A/K/A  
WILLIAM L. BENALLY  
(059292)  
~~12 1/2%~~

NONE

AME  
COR

13 TRACTS INDIAN ALLOTTED LAND CONTAINING 1999.84 ACRES OR 27.0671%

CENTRAL BISTI LOWER GALLUP SAND UNIT AREA TOTALS:

5 FEDERAL TRACTS	4308.62 ACRES	58.3155%
5 STATE OF NEW MEXICO TRACTS	1080.00 ACRES	14.6174%
13 TRACTS INDIAN ALLOTTED LAND	<u>1999.84 ACRES</u>	<u>27.0671%</u>
	7388.46 ACRES	100.0000%



EXHIBIT C  
SCHEDULE OF TRACT PERCENTAGE PARTICIPATION  
CENTRAL BISTI LOWER GALLUP SAND UNIT  
SAN JUAN COUNTY, NEW MEXICO

<u>TRACT NUMBER</u>	<u>DESCRIPTION</u>	<u>SERIAL NO. AND DATE OF LEASE OR APPLICATION</u>	<u>PERCENTAGE PARTICIPATION</u>
<u>FEDERAL LANDS</u>			
1	T-26N, R-12W: SEC. 31; LOT 4, S $\frac{1}{2}$ SE $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$	SF-078056 2-1-48 H.B.P.	43.36811
	T-25N, R-12W: SEC. 5; LOTS 3 AND 4, S $\frac{1}{2}$ NW $\frac{1}{4}$ SEC. 6; (ALL) LOTS 1, 2, 3, 4, 5, 6 & 7, SE $\frac{1}{4}$ NW $\frac{1}{4}$ , S $\frac{1}{2}$ NE $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$ SEC. 7; LOTS 1, 2, E $\frac{1}{2}$ NW $\frac{1}{4}$ , NE $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$ SEC. 8; N $\frac{1}{2}$		
2	T-25N, R-12W: SEC. 17; N $\frac{1}{2}$ NW $\frac{1}{4}$ , N $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$	SF-078058 2-1-48 H.B.P.	2.16406
3	T-25N, R-12W: SEC. 21; N $\frac{1}{2}$ NE $\frac{1}{4}$	SF-078065 2-1-48 H.B.P.	0.57718
4	T-25N, R-12W: SEC. 9; N $\frac{1}{2}$	NM-036254 2-1-48 H.B.P.	10.80302
<u>STATE LANDS</u>			
7	T-25N, R-12W: SEC. 16; ALL	E-6597-2 H.B.P.	6.91834
10	T-26N, R-12W: SEC. 32; S $\frac{1}{2}$ SW $\frac{1}{4}$	B-11370-31 H.B.P.	0.37804

<u>TRACT NUMBER</u>	<u>DESCRIPTION</u>	<u>NAVAJO ALLOTTED CONTRACT NO. AND DATE</u>	<u>PERCENTAGE PARTICIPATION</u>
<u>INDIAN ALLOTTED LANDS</u>			
11	T-25N, R-12W: SEC. 5; SW $\frac{1}{4}$	14-20-603-1292 H.B.P.	4.72964
12	T-25N, R-12W: SEC. 9; SE $\frac{1}{4}$	14-20-603-1228 H.B.P.	4.61741
13	T-25N, R-12W: SEC. 5; S $\frac{1}{2}$ NE $\frac{1}{4}$	14-20-603-1448 H.B.P.	0.84103
14	T-25N, R-12W: SEC. 3; SW $\frac{1}{4}$	14-20-603-1423 H.B.P.	0.93458
15	T-25N, R-12W: SEC. 4; SE $\frac{1}{4}$	14-20-603-1424 H.B.P.	2.18277
16	T-25N, R-12W: SEC. 10; NW $\frac{1}{4}$	14-20-603-1449 H.B.P.	3.90585
18	T-25N, R-12W: SEC. 4; SW $\frac{1}{4}$	14-20-603-321 10-7-53 H.B.P.	3.41945 *
19	T-25N, R-12W: SEC. 5; SE $\frac{1}{4}$	14-20-603-323 10-7-53 H.B.P.	4.36227
20	T-25N, R-12W: SEC. 8; SW $\frac{1}{4}$	14-20-603-324 10-7-53 H.B.P.	1.95205
21	T-25N, R-12W: SEC. 8; SE $\frac{1}{4}$	14-20-603-325 10-7-53 H.B.P.	4.09958
22	T-25N, R-12W: SEC. 9; SW $\frac{1}{4}$	14-20-603-326 H.B.P.	4.74662
TOTAL			100.00000

\* BY AGREEMENT THE AMERADA KA-DA-PAH #1 WELL, SITUATED ON TRACT 18 WAS CREDITED WITH THE MAXIMUM PRODUCTION FACTOR IN COMPUTING "TOTAL TRACT OIL PRODUCTION DURING BASE PERIOD" WITH RESPECT TO TRACT 18 IN CONTEMPLATION OF THE USE OF SAID WELL AS AN INJECTION WELL.

CERTIFICATION - DETERMINATION

Pursuant to the authority vested in the Secretary of Interior under the allotted Mineral Leasing Act of March 3, 1909, 35 Stat. 783, 25 U. S. C. Sec. 396 and the Tribal Land Mineral Leasing Act of May 11, 1938, 52 Stat. 347, 25 U. S. C. Secs. 396a, et seq., as to certain restricted and allotted Indian lands and delegated to the Commissioner of Indian Affairs by Departmental Order No. 2508 of January 11, 1949, 14 F. R. 258-260, and

Pursuant to the authority vested in the Secretary of the Interior as to Federal lands, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. Secs. 181, et seq., and delegated to the Director of the Geological Survey pursuant to Departmental Order No. 2365 of October 8, 1947, 43 C. F. R. Sec. 4.611, 12 F. R. 6784, we do hereby:

A. Approve the attached agreement for the development and operation of the Central Bisti Lower Gallup Sand Unit Area, San Juan County, State of New Mexico.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, and royalty requirements of all Indian leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

D. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

---

Area Director, Gallup Area Office  
Bureau of Indian Affairs

Dated \_\_\_\_\_

---

Director, United States Geological Survey

Dated \_\_\_\_\_