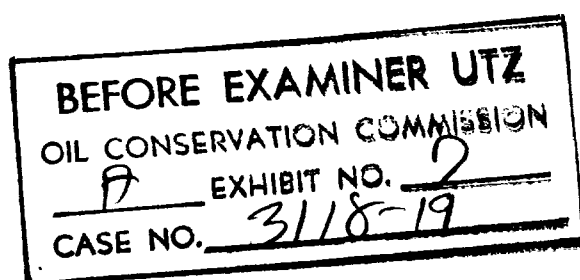


UNIT AGREEMENT
SOUTH PENROSE SKELLY UNIT
LEA COUNTY, NEW MEXICO

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Exhibit "A" (Map of Unit Area)
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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SOUTH PENROSE SKELLY UNIT
LEA COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the _____ day of _____, 196____, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "Parties hereto",

W I T N E S S E T H :

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943 as amended by Section 1 of Chap. 162, Laws of 1951, Chap 7, Art. 11, Sec. 39, N.M.S. 1953 Ann.) to consent to or approve this Agreement on behalf of the State of New Mexico, insofar as it

covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws of 1943, as amended by Sec. 1, Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 41, N.M.S. 1953 Ann.) to amend with the approval of the lessee, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such unitized development and operation of State lands; and

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

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

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

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

SECTION 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder and valid, pertinent and reasonable regulations

hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this Agreement; and as to non-federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-federal land is located, are hereby accepted and made a part of this Agreement.

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

(a) "Unit Area" is defined as those lands specified in Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area; the lands described in Exhibit "B" are described as:

LEA COUNTY, NEW MEXICO

T. 22 S., R. 37 E.,

Section 3: Lots 3 and 4, SW/4 NW/4 and NW/4 SW/4
Section 4: Lots 1, 2, 3 and 4, S/2 N/2, SW/4 and
 W/2 SE/4
Section 5: All
Section 6: Lot 1, S/2 NE/4 and SE/4
Section 7: NE/4
Section 8: All
Section 9: All
Section 10: N/2, SW/4 and N/2 SE/4
Section 15: N/2 NW/4
Section 16: N/2, N/2 SW/4, N/2 SE/4 and SE/4 SE/4
Section 17: N/2 NE/4, SE/4 NE/4 and NE/4 SE/4

containing 4,399.65 acres, more or less.

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

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

(d) "Director" is defined as the Director of the United States Geological Survey.

(e) "Secretary" is defined as the Secretary of the Interior of the United States of America.

(f) "Department" is defined as the Department of the Interior of the United States of America.

(g) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey for the region in which the Unit Area is situated.

(h) "Unitized Formation" is defined as that oil and gas productive interval underlying the Unit Area between the top of the Queen formation and the top of the San Andres formation. For the purposes of this agreement the Queen Formation is defined as being that formation the top of which was encountered in Gulf Oil Corporation's Lee-Stebbins (NCT-A) Well No. 3, located 1870 feet FNL and 2092 feet FWL of Section 5, Township 22 South, Range 37 East at a depth of 3,370 feet as measured from the Kelly Drive Bushing on the Schlumberger electrical log dated April 22, 1951. The San Andres formation is defined as being that formation the top of which was encountered and which is shown in the same electrical log of said well at a depth of 3,880 feet.

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

(j) "Tract" means each parcel of land described as such and given a Tract number in Exhibit B.

(k) "Tract Participation" is defined as the percentage of participation, either Primary Phase or Secondary Phase, whichever is pertinent, as is shown on Exhibit B for allocating Unitized Substances to a Tract under this agreement.

(l) "Unit Participation" as used herein shall mean the sum of the Tract Participations, either Primary Phase or Secondary Phase, whichever is pertinent, as shown by Tracts for each Working Interest Owner in Exhibit "B" to the Unit Agreement.

(m) "Working Interest" is defined as the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, or otherwise held.

(n) "Working Interest Owner" is defined as and shall mean any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substance from the Unitized Formation and operating thereof hereunder.

(o) "Royalty Interest" or "Royalty" is defined as an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(p) "Royalty Owner" is defined as and shall mean the owner of a Royalty Interest.

(q) "Unit Operating Agreement" is defined as and shall mean any agreement or agreements (whether one or more) entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 9, infra, and shall be styled "Unit Operating Agreement, South Penrose Skelly Unit, Lea County, New Mexico".

(r) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners upon resignation or removal of the Unit Operator to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8 hereof.

(s) "Primary Phase of Operations" is defined as the status of operations during the period that Unitized Substances are produced from the Unit Area from and after the effective date of this Agreement until 7:00 o'clock a.m. the first day of the calendar month ensuing after 400,000 barrels of oil minus the gross oil production from January 1, 1962 to the effective date of this Agreement have been produced from the Unitized Formation. The Primary Phase, being predicated upon 100% commitment of the Unit Area, shall be subject to correction to coincide with the Primary Phase of the unitized portion of the reservoir in event of the non-commitment of any Tract. For the purposes of this definition the Operator's Monthly Reports, Form C-115, filed with the New Mexico Oil Conservation Commission shall be deemed the controlling evidence of the production of 400,000 barrels of oil after January 1, 1962.

(t) "Secondary Phase of Operations" is defined as the status of operations for the remainder of the term of this agreement after the Primary Phase has been completed.

(u) "Oil and Gas Rights" means the right to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

SECTION 3. EXHIBITS. Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentage ownership of each Working Interest Owner in each Tract, and the percentage of participation each Tract has 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, and copies of such revision shall be filed with the Land Commissioner, and with the Supervisor as required.

SECTION 4. EXPANSION. The above described Unit Area may when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement to conform with the purposes of this Agreement. Such expansion shall be effected in the following manner.

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

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the unit and in the Tract proposed to be included in the unit, setting out the basis for admission, the unit participation to be assigned to each Tract in the enlarged Unit and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if at least three Working Interest Owners having in the aggregate eighty percent (80%) Secondary Phase Participation have agreed to such Tract or Tracts being brought into the Unit, then Unit Operator shall:

(1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Unit Participation to be assigned thereto and the proposed effective date thereof; and

(2) Deliver copies of said notice to the Land Commissioner, the Director, each Working Interest Owner and to the lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Land Commissioner and Director the following: (a) Evidence of mailing or delivering copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the participation requirements of Section 13, infra; and (d) Copy of any objections received.

The expansion shall, after due consideration of all pertinent information and approval by the Land Commissioner and the Director, become effective as of the date prescribed in the notice thereof, preferably the first day of a month subsequent to the date of notice.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement as to the unitized formation shall constitute land referred to herein as "Unitized Land" or "Land subject to this agreement". Nothing herein shall be construed to unitize, pool, or in

any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as above described.

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

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Land Commissioner and the Director, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The Unit Operator shall be subject to removal by Working Interest Owners having in the aggregate 75% or more Secondary Phase Participation exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the Supervisor.

In all such instances of effective resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter

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

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

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

In selecting a successor Unit Operator the affirmative vote of three or more Working Interest Owners having a total of sixty percent (60%) or more of the total voting interest in the Unit shall prevail;

provided that if any one Working Interest Owner has a voting interest of more than forty percent (40%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one of more other Working Interest Owners having a total voting interest of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of at least seventy-five percent (75%) of the voting interest remaining after excluding the voting interest of Unit Operator so removed. In voting under this Section 8 each Working Interest Owner shall have a voting interest equal to its Secondary Phase Participation.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.

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

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR.

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

SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this agreement is reasonably proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this agreement is to formulate and to put into effect a secondary recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Supervisor, the Land Commissioner and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gases and any one or more other substances or combination of substances whether produced from the Unit Area or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. Subject to like approval the plan of operation may be revised as conditions may warrant.

The initial plan of operation shall be filed with the Supervisor, the Land Commissioner and the Commission concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor, the Land Commissioner and the Commission may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

The parties hereto subject to prior rights, if any, grant to the Unit Operator the use of brine or water or both from any formation in and under the Unit Area for injection into the Unitized Formation insofar as these rights are granted by the oil and gas leases.

SECTION 12. TRACT PARTICIPATION. In Exhibit "B" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the percentage of participation allocated to each Tract in the Unit Area during the Primary and Secondary Phases of Operations respectively as those terms are defined herein.

Beginning at 7:00 a.m. on the effective date hereof and until 7:00 a.m. on the first day of the month next following the date when cumulative oil production from all of the Tracts described in Exhibit "B" from the Unitized Formation subsequent to 7:00 a.m. January 1, 1962, equals 400,000 barrels, the participation of each Tract shall be equal to one hundred percent (100%) of the ratio of the total income inclusive of gas production from each such Tract to the total income inclusive of gas production from all such Tracts during the period from July 1, 1961 to January 1, 1962 as approved by the Working Interest Owners and as stipulated under Primary Phase Participation of Exhibit "B". For purposes of determining when 400,000 barrels have been produced the Operators' Monthly Production Reports, Form C-115, on file with the New Mexico Oil Conservation Commission shall be deemed the controlling evidence.

Beginning at 7:00 a.m. on the first day of the month following the date when the 400,000 barrels referred to immediately above shall have been produced, the Tract Participation of each Tract shall be equal to one hundred percent (100%) of the ratio of the cumulative

oil production from each such Tract to the cumulative oil production from all such Tracts both as of January 1, 1962, provided however that certain quarter-quarter sections within the unit which have never produced from the formations to be unitized or have been only recently developed have been assigned a cumulative oil figure which is comparable to the average cumulative oil recovery of the adjacent quarter-quarter sections. The Secondary Phase Participations that are approved by the Working Interest Owners are shown on Exhibit "B".

In the event less than all Tracts are committed to the unit on the effective date hereof, the Primary and Secondary Phase Participations shall be calculated on the basis of all committed Tracts rather than all Tracts in the Unit Area as proposed herein, and the 400,000 barrels required to be produced subsequent to January 1, 1962 before Secondary Phase of Operations becomes effective shall likewise be reduced by multiplying the 400,000 barrels by the sum of the committed Tract Primary Phase Participations expressed as a decimal.

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION. On and after the effective date hereof the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances therefrom shall be those Tracts more particularly described in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public highway or a railroad right of way shall be considered to have a common boundary), and that otherwise qualify as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this agreement and as to which Royalty Owners owning eighty-five percent (85%) or more of the Royalty Interest have become parties to this agreement.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this agreement, and as to which Royalty Owners owning less than eighty-five (85%) of the Royalty Interest have become parties to this agreement, and as to which (1) all Working Interest Owners in such Tract have joined in a request for the inclusion of such Tract in the Unit Area, and as to which (2) eighty percent (80%) of the combined Secondary Phase voting interests of Working Interest Owners in all Tracts that meet the requirements of Section 13 (a) above have voted in favor of the inclusion of such Tract. For the purpose of this Section 13 (b), the voting interest of a Working Interest Owner shall be equal to the ratio that its Secondary Phase Participation attributable to Tracts which qualify under Section 13 (a) bears to the total Secondary Phase Participation of all Working Interest Owners attributable to all Tracts which qualify under Section 13 (a).

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have become parties to this agreement have joined in a request for inclusion of such Tract in the Unit Area, and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other

Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands that may be made by the owners of Working Interests in such Tract who are not parties to this agreement, and which arise out of the inclusion of the Tract in the Unit Area; and as to which (2) eighty percent (80%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Section 13 (a) or 13 (b) have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. For the purpose of this Section 13 (c), the voting interest of each Working Interest Owner shall be equal to the ratio that its Secondary Phase Participation attributable to Tracts that qualify under Sections 13 (a) or 13 (b) bears to the total Secondary Phase Participation of all Working Interest Owners attributable to all Tracts which qualify under Section 13 (a) or 13 (b). Upon the inclusion of such a Tract in the Unit Area, the Tract Participations under either the Primary or Secondary Phase of Operations which would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, in proportion to their respective Working Interests in the Tract.

If on the effective date of this agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this agreement for final approval by the Land Commissioner and the Director, file therewith a schedule of those Tracts which have been committed and made subject to this agreement and are entitled to participate in the production from the Unit Area hereunder. Said schedule shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such Tract which shall be computed according to the participation formula set out in Section 12 (Tract Participation) above. This schedule of participation shall be a part of Exhibit "B" and upon approval thereof by the Land Commissioner and the Supervisor shall become a part of this agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Land Commissioner and the Director.

SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the respective Tract Participation effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B". The amount of Unitized Substances so allocated to each Tract, and only that amount, (regardless of whether it be more or less

than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

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

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

If the Working Interest and the Royalty Interest 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 executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on unitized land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 15 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any Working Interest Owner hereto shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation currently as and when produced, then so long as such condition continues, Unit Operator, for the account and at the

expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may sell or otherwise dispose of such production to itself or to others on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days notice of such intended sale.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all Royalty on the lease or leases and Tracts contributed by it and received into the unit, and each such party shall hold each other party hereto harmless against all claims, demands and causes of action for such Royalty on the lease or leases and Tracts contributed by it to the Unit Area.

If, after the effective date of this agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Section 30 (Nonjoinder and Subsequent Joinder), or if any Tract is excluded from the Unit Area as provided for in Section 29 (Loss of Title), the schedule of participation as shown in Exhibit "B", subject to Section 12 (Tract Participation) or Section 30 (Nonjoinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Land Commissioner, and the

Supervisor to show the revised Tract Participations of all the then effectively committed Tracts; and the revised Exhibit "B", upon approval by the Land Commissioner and the Director, shall govern all the allocation of production from and after the effective date thereof until a revised schedule is filed and approved as hereinabove provided.

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

SECTION 15. ROYALTY SETTLEMENT. The State of New Mexico and United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Unit Agreement. With respect to those leases committed hereto on which the royalty rate depends upon the daily average production per well, such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline runs per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing as of the effective date hereof.

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

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

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

royalty for lands of the United States of America subject to this agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 17. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 18. 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.

SECTION 19. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Land Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement.

Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract subject to this agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Land Commissioner and the Secretary or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.

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

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

(f) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Provided, however, that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

SECTION 20. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 21. EFFECTIVE DATE AND TERM. This agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock a.m. of the first day of the calendar month next following:

(a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners owning a combined Secondary Phase Participation of at least 85%, and the execution or ratification of the agreement by Royalty Owners owning a combined interest of at least 65% of the Royalty Interest, in said Unit Area; and

(b) The approval of this agreement by the Land Commissioner, the Secretary or his duly authorized representative, and the Commission; and

(c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and provided, further, that if (a), (b) and (c) above are not accomplished on or before January 1, 1965, this agreement shall ipso facto terminate on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners owning a combined Secondary Phase Participation of at least 80%, and the Working Interest Owners owning a combined Secondary Phase Participation of at least 80% committed to this agreement have decided to extend said termination date for a period not to exceed six months (hereinafter called "extended termination date"). If said termination date is so extended and (a), (b) and (c) are not accomplished on or before said extended termination date, this agreement shall ipso facto terminate on said extended termination date and thereafter be of no further force or effect.

Unit Operator shall, within thirty (30) days after the effective date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has become effective according to its terms and stating further the effective date.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and so long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated with the approval of the Land Commissioner and the Director by Working Interest Owners owning 80% Secondary Phase Participation whenever such Working Interest Owners determine that Unit Operations are no longer profitable, feasible or in the interest of conservation. Upon approval such termination shall be effective as of the first day of the month after said Working Interest Owners determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Lea County, New Mexico.

Upon termination of this agreement, the further development and operation of the Unit Area as a unit shall be abandoned, Unit Operations shall cease, and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts

affecting the separate Tracts just as if this agreement had never been entered into.

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 22. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION.

All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Land Commissioner and as to any lands of the State of New Mexico or privately-owned lands subject to this agreement 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 fifteen days from notice, and thereafter subject to administrative appeal before becoming final.

SECTION 23. NONDISCRIMINATION. In connection with the performance of work under this agreement, the Unit Operator agrees to comply with all of the provisions of Section 301 (1) to (7) inclusive,

of Executive Order 10925, as amended, (28 F.R. 6485), which are hereby incorporated by reference in this agreement.

SECTION 24. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Land Commissioner, the Department, and the Commission, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner, the Department, or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 25. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 26. 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 or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party or any right beyond his or its authority to waive; Provided, however, each party hereto covenants that it will not resort to any action to partition the Unitized land or the Unit equipment.

SECTION 27. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this agreement, various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unit Area as now or hereafter constituted. Therefore, for all purposes of this agreement any and all such equipment shall be considered to be personal property and not fixtures attached to realty.

Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this agreement, and it is agreed that any and all such equipment and personal property shall be and remain personal property for all purposes.

SECTION 28. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue secondary recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this agreement shall be suspended while, but only so long as the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 29. LOSS OF TITLE. In the event title to any Tract of unitized land shall fail so as to render the Tract inoperable under this agreement and the true owner cannot be induced to join this Unit Agreement, such Tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any Royalty, Working Interest or other interest subject thereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State or Federal land or leases, no payments of funds due the State of New Mexico or the United States of America shall be withheld, but such funds shall be deposited as directed by the Land Commissioner or the Supervisor (as the case may be), to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 30. NONJOINDER AND SUBSEQUENT JOINDER. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate

joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to 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 such interest to be regarded as effectively committed to this Unit Agreement.

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

It is understood and agreed, however, that from and after the effective date hereof the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having not less than 80% Secondary Phase Participation, and approved by the Land Commissioner and Director. Such subsequent joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this agreement and the Unit Operating Agreement and, where State land is involved, such joinder must be approved by the Land Commissioner. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this agreement shall be effective at 7:00 a.m. as of the first day

of the month following the filing with the Land Commissioner and the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this agreement, unless objection to such joinder by the Land Commissioner or the Director is duly made within sixty (60) days after such filing.

SECTION 31. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the land within the above described Unit Area.

SECTION 32. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 33. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners, nor 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 or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of 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 agreement 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.

SECTION 34. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 35. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipe line connection in such tanks as of 7:00 a.m. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto, the same as if the unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the

terms hereof. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after effective date hereof.

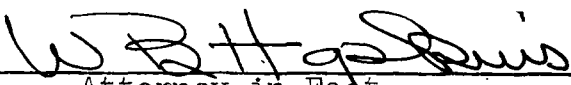
If, as of the effective date hereof, any Tract is over-produced with respect to the allowable of the wells on that Tract and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded as a part of the Unitized Substances produced after the effective date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

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

GULF OIL CORPORATION

ATTEST:


Assistant Secretary

By 
Attorney-in-Fact
P. O. Box 1938
Roswell, New Mexico

Date: November 22, 1963

THE STATE OF NEW MEXICO *l*

COUNTY OF CHAVES *l*

The foregoing instrument was acknowledged before me this 22nd day of November, 196 3, by W. B. HOPKINS, Attorney-in-Fact for GULF OIL CORPORATION, a Pennsylvania corporation, on behalf of said corporation.


Notary Public

My Commission Expires:
August 15, 1966

EXHIBIT "B" TO UNIT AGREEMENT
SOUTH PENROSE SKELLY UNIT
IEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. AND LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	PER CENT PARTICIPATION OF TRACT IN UNIT		
							WORKING INTEREST OWNER AND PERCENTAGE	PRIMARY PHASE	SECONDARY PHASE
1	N/2 SE/4, SE/4 SE/4 Sec. 6, S/2 NE/4, NW/4 NE/4 Sec. 7, & NE/4 NE/4 Sec. 17, T22S, R37E	280.00	LC-032573 (b) Apr. 1, 1957	1/8 to 1/4	Marlon M. Leonard	None	Continental Oil Co. 25.0000% The Atlantic Refining Co. 25.0000% Pan American Petroleum Corp. 25.0000% California Oil Co. 25.0000% Total 100.0000%	1.3900 1.3899 1.3899 1.3899	1.4986 1.4986 1.4985 1.4985
2	SW/4 SE/4 Sec. 6, T22S, R-37E	40.00	LC-032573 (b) Apr. 1, 1957	1/8 to 1/4	Marlon M. Leonard	5%	Carper Drilling Co. 100.0000% Total 100.0000%	0.0000 5.5597	0.0384 5.9942
2-A	NE/4 NE/4 Sec. 7, T22S, R37E	40.00	LC-032573 (b) Apr. 1, 1957	1/8 to 1/4	Marlon M. Leonard	5%	Carper Drilling Co. 83.3333% Ernest A. Hanson 16.6667% Total 100.0000%	1.6305 0.3261 1.9566	0.4924 0.0985 0.5909
3	NW/4 Sec. 8, T22S, R37E	160.00	LC-033706-A June 1, 1957	1/8 to 1/4	Texaco Inc.	7-1/2%	Texaco Inc. 100.0000% Total 100.0000%	5.3392 1.9566	2.8693 0.5909
4	NW/4 NW/4 Sec. 9, T22S, R37E	40.00	LC-064428 July 1, 1957	1/8	Texas Pacific Oil Company	None	Texas Pacific Oil Co. 100.0000% Total 100.0000%	0 1.9566	0.3463 0.5909
5	SW/4 Sec. 8, T22S, R37E	160.00	LC-033706-B Feb. 1, 1958	1/8	Texaco Inc.	None	Texaco Inc. 100.0000% Total 100.0000%	4.9593 1.9566	3.6922 0.5909
6	SW/4 NW/4 Sec. 9, T22S, R37E	40.00	LC-061446 Nov. 1, 1943	1/8	Sohio Petroleum Company	None	Sohio Petroleum Co. 66.6666% Brosco Corp. 31.9999% John B. Rich 1.6666% Total 100.0000%	0 0 0 0	0.1503 0.0714 0.0038 0.2255
7	SE/4 NW/4 Sec. 9, T22S, R37E	40.00	LC-069162 Nov. 1, 1943	1/8 to 1/4	Sohio Petroleum Company et al	None	Sohio Petroleum Co. 3.1250% The Atlantic Refining Co. 4.6875% Brosco Corp. 1.4844% John B. Rich 0.0781% Continental Oil Co. 3.1250% June D. Speight 1.5625% Gulf Oil Corp. 31.2500% J.M. Leonard 4.6875% Total 100.0000%	0 0 0 0 0 0 0 0	0.0099 0.0149 0.0048 0.0003 0.0099 0.0050 0.0991 0.0149

EXHIBIT "B" TO UNIT AGREEMENT
SOUTH PENROSE SKELLY UNIT - LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. AND LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	PER CENT PARTICIPATION OF TRACT IN UNIT		
							WORKING INTEREST OWNER AND PERCENTAGE	PRIMARY PHASE	SECONDARY PHASE
7	SE/4 NW/4 Sec. 9, T22S, R37E		LC-069162 Nov. 1, 1943	1/8 to 1/4	Sohio Petroleum Company et al	None	Socony Mobil Oil Co., Inc. 12.5000% North Central Oil Corp. 1.5625% Marathon Oil Co. 4.6875% Pan American Petroleum Corp. 4.6875% Stinclair Oil & Gas Co. 6.2500% Skelly Oil Co. 7.8125% California Oil Co. 3.1250% Texas Pacific Oil Co. 9.3750% Total 100.0000%	0 0 0 0 0 0 0 0	0.0396 0.0050 0.0149 0.0149 0.0198 0.0247 0.0100 0.0297 0.3174
8	NE/4 NW/4 Sec. 9, T22S, R37E	40.00	NM-032368 July 1, 1957	1/8 to 1/3	Rowan Oil Company	None	Sohio Petroleum Co. 50.0000% Brosco Corp. 23.7500% John B. Rich 1.2500% Texas Pacific Oil Co. 25.0000% Total 100.0000%	0 0 0 0	0.2432 0.1155 0.0061 0.1216 0.4864
9	NW/4 NE/4 Sec. 17, T22S, R37E	40.00	B-934 June 6, 1932	1/8	Sohio Petroleum Company and William Fleming	1/8 of 8/8	Sohio Petroleum Co. 33.3333% William Fleming and Bessie Fleming 50.0000% Brosco Corp. 15.8333% John B. Rich 0.8334% Total 100.0000%	0.8441 1.2661 0.4009 0.0211 2.5322	0.4908 0.7363 0.2332 0.0123 1.4726
10	N/2 Sec. 16, T22S, R37E	320.00	B-3480-1 Dec. 13, 1934	1/8	Gulf Oil Corp.	1/16 of 8/8	TO 4000' Two States Oil Co. 100.0000% BELOW 4000' Gulf Oil Corp. 100.0000%	8.2470	6.4965
11	E/2 SE/4 & N/2 SW/4 Sec. 16, T22S, R37E	160.00	B-3480-1 Dec. 13, 1934	1/8	Gulf Oil Corp.	None	Gulf Oil Corp. 100.0000%	4.9776	4.0649

EXHIBIT "B" TO UNIT AGREEMENT
SOUTH PENROSE SKELLY UNIT - LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. AND LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	PER CENT PARTICIPATION OF TRACT IN UNIT		
							WORKING INTEREST OWNER AND PERCENTAGE	PRIMARY PHASE	SECONDARY PHASE
12	NW/4 SE/4 Sec. 16, T22S, R37E	40.00	B-3480-1 Dec. 13, 1934	1/8	Gulf Oil Corp.	71/512 of 8/8	To 4200' Millard Deck 100.0000%	1.7333	0.1560
							Below 4200' Gulf Oil Corp. 100.0000%		
13	W/2 SE/4 Sec. 5, T22S, R37E	80.00	Fee Apr. 12, 1926	1/8	Marathon Oil Company	None	Marathon Oil Co. 100.0000%	0	1.8290
14	SW/4 Sec. 5, T22S, R37E	160.00	Fee Apr. 12, 1926	1/8	Pan American Petroleum Corp.	None	Pan American Petroleum Corp. 100.0000%	3.2970	4.3056
15	NE/4 SE/4 Sec. 17, T22S, R37E	40.00	Fee May 6, 1926	1/8	Guy R. Zachry	1/16 of 8/8	W. B. Yarborough 38.0281% Guy R. Zachry 38.0281% Robert N. Haynes 12.6759% L. A. Walker 11.2679% Total 100.0000%	0.1636 0.1636 0.0546 0.0485 0.4303	0.1782 0.1782 0.0594 0.0529 0.4687
16	SW/4 NW/4 Sec. 3, T22S, R37E	40.00	Fee Mar. 19, 1927	1/8	Pan American Petroleum Corp.	None	Pan American Petroleum Corp. 100.0000%	0	0.8981
17	N/2 NE/4 Sec. 8, T22S, R37E	80.00	Fee Apr. 13, 1927	1/8	Guy R. Zachry	3/32 of 7/8 and 3/32 of 8/8	Guy R. Zachry 38.0282% L. A. Walker 11.2676% W. B. Yarborough 38.0282% Robert N. Haynes 12.6760% Total 100.0000%	0.3171 0.0940 0.3171 0.1057 0.8339	0.7207 0.2136 0.7207 0.2403 1.8953

EXHIBIT "B" TO UNIT AGREEMENT
SOUTH PENROSE SKELLY UNIT - LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. AND LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	PER CENT PARTICIPATION OF TRACT IN UNIT		
							WORKING INTEREST OWNER AND PERCENTAGE		PRIMARY PHASE SECONDARY PHASE
18	S/2 NE/4 Sec. 8, T22S, R37E	80.00	Fee Apr. 13, 1927	1/8	Pan American Petroleum Corp.	None	Pan American Petroleum Corp.	100.0000%	0 2.3874
19	S/2 Sec. 9, T22S, R37E	320.00	Fee Apr. 28, 1927	1/8	Humble Oil & Refining Co.	None	Humble Oil & Refining Co.	100.0000%	7.2934 7.1325
20	SW/4 NE/4 Sec. 6, T22S, R37E	40.00	Fee July 9, 1927	1/8	Skelly Oil Company	None	Skelly Oil Co.	100.0000%	1.1801 0.6126
21	N/2 SW/4 Sec. 4, T22S, R37E	80.00	Fee July 11, 1927	1/8	Skelly Oil Company	None	Skelly Oil Co.	100.0000%	0 1.2837
22	Lot 3, SE/4 NW/4 Sec. 4, Sec. 4, T22S, R37E	79.86	Fee July 15, 1927	1/8	Shell Oil Company	None	Shell Oil Co.	100.0000%	0 1.9404
23-A	N/2 SE/4 & SE/4 SE/4 Sec. 8, T22S, R37E	120.00	Fee Mar. 20, 1928 Shell Lease No. 0638-01	1/8	Shell Oil Company	None	Shell Oil Co.	100.0000%	6.3291 4.9485
23-B	SW/4 SE/4 Sec. 8, R22S, R37E	40.00	Fee Mar. 20, 1928 Shell Lease No. 0638-02	1/8	Shell Oil Company	None	Shell Oil Co.	100.0000%	0.9970 1.3020
24	Lot 4 Sec. 4, T22S, R37E	39.91	Fee July 9, 1928	10.15625%	Southern Petroleum Exploration, Inc.	None	Southern Petroleum Exploration, Inc.	100.0000%	1.4478 1.9233
25-A	S/2 NW/4 Sec. 5, T22S, R37E	80.00	Fee May 16, 1934	1/8	Gulf Oil Corp.	None	Gulf Oil Corp.	100.0000%	2.9644 2.1235
25-B	Lots 1 & 2 Sec. 5, T22S, R37E	80.08	Fee May 16, 1934	1/8	Gulf Oil Corp.	None	Gulf Oil Corp.	100.0000%	4.6431 2.1835
26-A	NE/4 Sec. 9, T22S, R37E	160.00	Fee May 20, 1934	1/8	Magnolia Petroleum Company	None	Socony Mobil Oil Co., Inc.	100.0000%	3.0279 3.6800
26-B	NW/4 Sec. 10, T22S, R37E	160.00	Fee May 30, 1934	1/8	Magnolia Petroleum Company	None	Socony Mobil Oil Co., Inc.	100.0000%	2.7481 3.6748
27-A	SW/4 NE/4 Sec. 4, T22S, R37E	40.00	Fee Oct. 25, 1934	1/8	Amerada Petroleum Corporation	None	Amerada Petroleum Corp.	100.0000%	0 1.5562
27-B	Lots 1 & 2 and SE/4 NE/4 Sec. 4, T22S, R37E	119.55	Fee Oct. 25, 1934	1/8	Amerada Petroleum Corporation	1/420 of 7/8 and 1/112 of 7/8	Amerada Petroleum Corp.	100.0000%	2.6149 3.1693

EXHIBIT "B" TO UNIT AGREEMENT
SOUTH PENROSE SKELLY UNIT - IEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. AND LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	PER CENT PARTICIPATION OF TRACT IN UNIT		
							PRIMARY PHASE	SECONDARY PHASE	
28	Lot 3 Sec. 5, T22S, R37E	40.19	Fee Oct. 21, 1934	1/8	Guy R. Zachry	1/16 of 8/8	Guy R. Zachry 38.0282%	0.4528	0.6047
							W. B. Yarborough 38.0282%	0.4528	0.6047
							L. A. Walker 11.2676%	0.1344	0.1793
							Robert N. Haynes 12.6760%	0.1509	0.2016
							Total 100.0000%	1.1909	1.5903
29	SW/4, NW/4 SE/4 Sec.10, T22S, R37E	200.00	Fee Apr. 9, 1935	1/8	Skelly Oil Company	None	Skelly Oil Co. 68.7500%	4.2736	2.1457
							The Atlantic Refining Co. 5.6640%	0.3521	0.1768
							The Chase Manhattan Bank 25.5860%	1.5904	0.7986
							Total 100.0000%	6.2161	3.1211
30	NE/4 SE/4 Sec.10, T22S, R37E	40.00	Fee Apr. 19, 1935	1/8	Amerada Petroleum Corporation	1/4 of 5/16 of 8/8	Amerada Petroleum Corp. 100.0000%	1.4254	0.3476
31	E/2 NE/4 Sec.10, T22S, R37E	80.00	Fee Oct. 7, 1935	1/8	Gulf Oil Corp.	None	Gulf Oil Corp. 100.0000%	5.6704	2.5171
32	W/2 NE/4 Sec.10, T22S, R37E	80.00	Fee Oct. 7, 1935	1/8	Gulf Oil Corp.	None	Gulf Oil Corp. 100.0000%	1.4540	1.5818
33	SE/4 NE/4 Sec. 5, T22S, R37E	40.00	Fee Oct. 22, 1935	1/8	Tidewater Oil	None	Tidewater Oil Co. 92.8570%	0	0.8467
							J. C. Clover 3.5710%	0	0.0326
							June D. Speight 3.5720%	0	0.0326
							Total 100.0000%	0	0.9119
34	SW/4 NE/4 Sec. 5, T22S, R37E	40.00	Fee Oct. 28, 1935	1/8	Guy R. Zachry	None	Robert N. Haynes 12.6775%	0	0.1024
							L. A. Walker 11.2675%	0	0.0910
							W. B. Yarborough 38.0280%	0	0.3073
							Guy R. Zachry 38.0280%	0	0.3073
							(All payable to Guy R. Zachry, Operator)		
							Total 100.0000%	0	0.8080

EXHIBIT "B" TO UNIT AGREEMENT
SOUTH PENROSE SKELLY UNIT - LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. AND LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	PER CENT PARTICIPATION OF TRACT IN UNIT			
							WORKING INTEREST OWNER AND PERCENTAGE		PRIMARY PHASE	SECONDARY PHASE
35	E/2 SE/4 Sec. 5, T22S, R37E	80.00	Fee Mar. 28, 1936	1/8	Gulf Oil Corp.	None	Gulf Oil Corp.	100.0000%	2.4028	2.0739
36	SE/4 SW/4 Sec. 4, T22S, R37E	40.00	Fee Apr. 3, 1936	1/8	Gulf Oil Corp.	None	Gulf Oil Corp.	100.0000%	0.5538	1.4317
37	SW/4 NW/4 Sec. 4, T22S, R37E	40.00	Fee May 4, 1936	1/8	Gulf Oil Corp.	None	Gulf Oil Corp.	100.0000%	4.9103	1.6057
38	W/2 SE/4 Sec. 4, NW/4 SW/4 Sec. 3, T22S, R37E	120.00	Fee Mar. 31, 1937	1/8	Sinclair Oil & Gas Co.	None	Sinclair Oil & Gas Co.	100.0000%	2.1473	3.5495
39	SW/4 SW/4 Sec. 4, T22S, R37E	40.00	Fee Aug. 26, 1937	1/4	Tidewater Oil Co.	None	Tidewater Oil Co.	92.3076%(WI)	0	0.7253
					J. C. Clower			3.8461%	0	0.0302
					Clara Louise Brown			1.9232%	0	0.0151
					June D. Spelght			1.9231%(PP)	0	0.0151
					Total			100.0000%	0	0.7857
40	Lot 4 Sec. 5 & Lot 1 Sec. 6, T22S, R37E	80.59	Fee Nov. 22, 1937	21.87493%	Two States Oil Company	None	Southern Petroleum Exploration, Inc.	49.9995%	0.0222	0.8634
							Two States Oil Co.	37.4996%	0.0166	0.6476
							J. B. Headley	12.4999%	0.0056	0.2159
							Total	100.0000%	0.0444	1.7269
41	SE/4 NE/4 Sec. 6, T22S, R37E	40.00	Fee Apr. 1, 1957	1/8	The Atlantic Refining Company	None	The Atlantic Refining Co.	50.0000%	0	0.2964
					Unleased		H. L. Lowe	35.0000%	0	0.2075
					(H. L. Lowe 50% Unleased)		P. H. Pewlitt	11.2500%	0	0.0667
					(P. H. Pewlitt 0.11250%)		Gordon Cone	3.7500%	0	0.0222
					(Gordon Cone 0.03750%)		Total	100.0000%	0	0.5928

EXHIBIT "B" TO UNIT AGREEMENT
SOUTH PENROSE SKELLY UNIT - LEA COUNTY, NEW MEXICO

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TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. AND LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	PER CENT PARTICIPATION OF TRACT IN UNIT		
							WORKING INTEREST OWNER AND PERCENTAGE	PRIMARY PHASE	SECONDARY PHASE
42	SE/4 NE/4 Sec. 17, T22S, R37E	40.00	Fee Sept. 13, 1962	1/8	Sohio Petroleum Co. 39/96 Mineral Interest Leased	None	Sohio Petroleum Co. 40.625000%	0	0.1952
					Unleased Mineral Interest Owner-ship As Follows:	None	Continental Oil Co. 9.375000%	0	0.0451
					Kirby Petroleum Co. 9/96	None	The Atlantic Refining Co. 18.750000%	0	0.0902
					The Atlantic Refining Co. 18/96	None	Reginald H. Johnson 4.166666%	0	0.0200
					Reginald H. Johnson 4/96	None	Charles G. Schlimer Est. 4/96	0	0.0200
					Charles G. Schlimer Est. 4/96	None	John D. Woodfin 4.166666%	0	0.0200
					John D. Woodfin 4/96	None	Hugh Corrigan III 6.250000%	0	0.0301
					Hugh Corrigan III 6/96	None	J. Patrick Corrigan 6.250000%	0	0.0301
					J. Patrick Corrigan 6/96	None	B. A. Christmas and Annie L. Christmas, Co-Trustees for		
					B. A. Christmas and Annie L. Christmas, Co-Trustees for	None	Mary Theresa Christmas, Bradford Ace Christmas, Candy Christmas, and Helene Jane Christmas 6/96	0	0.0301
					Mary Theresa Christmas, Bradford Ace Christmas, Candy Christmas, and Helene Jane Christmas 6/96		Total 100.000000%	0	0.4808

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. AND LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	PER CENT PARTICIPATION OF TRACT IN UNIT		
							WORKING INTEREST OWNER AND PERCENTAGE	PRIMARY PHASE	SECONDARY PHASE
43	Lots 3 & 4 Sec. 3, T22S, R37E	79.47	Fee Mar. 19, 1927	1/8	Sunray DX Oil Co.	None	Sunray DX Oil Co. 100.0000%	0	0.5464
44	N/2 NW/4 Sec. 15, T22S, R37E	80.00	Fee Oct. 5, 1926	1/8	Texas Pacific Oil Company	None	Broseco Corp. 15.8333% John B. Rich 0.8334% Sohlo Petroleum Co. 33.3333% Texas Pacific Oil Co. 50.0000% Total 100.0000%	0.1382 0.0073 0.2909 0.4363 0.8727	0.3584 0.0189 0.7546 1.1319 2.2638
TOTAL UNIT PARTICIPATION							100.0000	100.0000	
FEDERAL LANDS		840.00 Acres			19.0924% of Unit Area				
STATE LANDS		560.00 Acres			12.7283% of Unit Area				
FEE LANDS		2,999.65 Acres			68.1793% of Unit Area				
TOTAL		4,399.65 Acres			100.0000% of Unit Area				

FEDERAL LANDS	840.00 Acres	19.0924% of Unit Area
STATE LANDS	560.00 Acres	12.7283% of Unit Area
FEE LANDS	2,999.65 Acres	68.1793% of Unit Area
TOTAL	4,399.65 Acres	100.0000% of Unit Area