

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
STATE 32-7-33 UNIT AREA
COUNTY OF ROOSEVELT
STATE OF NEW MEXICO

BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION
Champlin EXHIBIT NO. 1
CASE NO. 4377 - 4370

I N D E X

<u>SECTION</u>		<u>PAGE</u>
1	Enabling Act and Regulations	2
2	Definitions	2
3	Exhibits	3
4	Expansion of Unit Area	4
5	Unitized Land and Unitized Substances	5
6	Unit Operator	5
7	Resignation or Removal of Unit Operator	5
8	Successor Unit Operator	6
9	Accounting Provisions and Unit Operating Agreement	7
10	Rights and Obligations of Unit Operator	7
11	Equipment and Facilities not Fixtures Attached to Realty	7
12	Plan of Further Development and Operation	8
13	Participation	9
14	Tracts Qualified for Participation	9
15	Allocation of Unitized Substances	10
16	Balancing of Production	11
17	Royalty Settlement	12
18	Rental Settlement	13
19	Conservation	13
20	Drainage	13
21	Leases and Contracts Conformed and Extended	13
22	Covenants Run with Land	14
23	Effective Date and Term	15
24	Appearances	16
25	Notices	16
26	No Waiver of Certain Rights	16
27	Unavoidable Delay	17
28	Loss of Title	17
29	Nonjoinder and Subsequent Joinder	18
30	Counterparts	18

I N D E X (Continued)

<u>SECTION</u>		<u>PAGE</u>
31	Taxes	19
32	Conflict of Supervision	20
33	No Partnership	20
34	Border Agreements	20

E X H I B I T S

Map of Area	A-1
Tracts and Tract Ownership	B-1

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
STATE 32-7-33 UNIT AREA
COUNTY OF ROOSEVELT
STATE OF NEW MEXICO

THIS AGREEMENT entered into as of the 15th day of June, 1970, 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 Commissioner of Public Lands of the State of New Mexico is authorized by law (Volume 2, Chapter 7, Article 11, New Mexico Statutes, 1953 Annotated) 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, Chp. 162, Laws of 1951; Chap. 7, Art. 11, Sec. 41, N. M. Stats. 1953 Annot.) 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 Oil Conservation Commission of the State of New Mexico is authorized by law (Volume 9, Part 2, Chapter 65, Article 3, New Mexico Statutes, 1953 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the State 32-7-33 Unit Area covering 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 Unit 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 "Unit Area" and the "Unitized Formation" lying thereunder (as those terms are defined hereinafter) and agree severally among themselves as follows:

1. ENABLING ACT AND REGULATIONS. 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 of New Mexico are hereby accepted and made a part of this agreement.

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

(a) "Commission" means the Oil Conservation Commission of the State of New Mexico.

(b) "Commissioner" means the Commissioner of Public Lands of the State of New Mexico.

(c) "Royalty Interest" or "Royalty" means 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 profits contract, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances

(d) "Royalty Owner" means the owner of a Royalty Interest

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

(f) "Tract Participation" means the percentage of Unitized Substances allocated to a Tract under this agreement as shown in Exhibit B.

(g) "Unit Area" means the land shown on Exhibit A, and described by Tracts in Exhibit B, containing 640 acres.

(h) "Unit Operating Agreement" means that certain Operating Agreement dated January 12, 1965, between Champlin Petroleum Company as "Operator" and Warren American Oil Company as "Non-Operator", as amended.

(i) "Unit Participation" means the sum of all Tract Participations or portions thereof which a party is entitled to receive. See Exhibit B.

(j) "Unitized Formation" means the San Andres Formation, same being that heretofore established underground reservoir encountered in the drilling by Champlin Petroleum Company of its State 32-7-33 Well No. 1 between the depths of 4,280 feet and 4,346 feet, which said well is located in the NW of the NE of Section 32, T-7-S, R-33-W, Roosevelt County, New Mexico.

(k) "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.

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

(m) "Working Interest Owner" means 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 Substances from the Unitized Formation and the operation thereof hereunder. The owner of oil and gas rights which are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

3. EXHIBITS. Attached hereto as Exhibit A is a map showing to the extent known to Unit Operator, the Unit Area and the boundaries and identity of Tracts and leases in said Unit Area. Attached hereto as Exhibit B is a schedule showing to the extent known to Unit Operator, the acreage comprising each Tract and the ownership of each interest owner in each Tract. 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 being owned by such party.

It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent Exhibits to this agreement; provided, however, that correction of any error other than correction of a mathematical or

clerical error shall be made by Unit Operator only after first having obtained approval of Working Interest Owners and the Commissioner.

Exhibits A and B shall be revised by Unit Operator whenever changes render such revision necessary, and at least two copies of such revision shall be filed with the Commissioner.

4. EXPANSION OF UNIT AREA. 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, whenever such expansion is necessary or advisable to conform with the purposes of this agreement. Tract Participations resulting from such expansion shall be on a negotiated basis and, after agreement between the affected parties has been reached, such expansion shall be effected in the following manner:

(a) Unit Operator, with concurrence of at least 100 percent of the then Voting Interests and after preliminary concurrence, the Commissioner and the Commission, shall prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the 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 Commissioner and the Commission evidence of mailing of the notice of expansion and a copy of any objections thereto which have been filed with Unit Operator, together with an application in sufficient number for approval of such expansion and with appropriate joinders.

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

In any approved expansion of the Unit Area, the revised Tract Participations of those Tracts which were committed prior to each such expansion shall remain in the same ratio one to another.

5. UNITIZED LAND AND UNITIZED SUBSTANCES. All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid and liquefiable hydrocarbons in the lands committed to this agreement are, as to the San Andres Formation, unitized under the terms of this agreement (and are herein called Unitized Substances) and said lands shall constitute lands referred to herein as "unitized land" or "land subject to this agreement."

6. UNIT OPERATOR. Champlin Petroleum Company is hereby designated as the 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.

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 6 months after notice of intention to resign has been served by Unit Operator on all Working Interest Owners and the 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 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 affirmative vote of at least 75% of the Voting Interests. Such removal shall be effective upon notice thereof to the Commissioner.

In all such instances of resignation or removal, until a successor Unit Operator is selected and approved, as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of 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 owned by the Working Interest Owners to the new duly qualified successor Unit Operator, or to the owner 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.

8. 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 75 per cent of the Voting Interests, select a successor Unit Operator; provided, however, that should any Working Interest Owner own a Voting Interest of more than 25 per cent, the vote of said party shall not serve to disapprove the selection of a new Unit Operator approved by 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 Commissioner. If no successor

Unit Operator is selected and qualified as herein provided, the Commissioner may, at his election, declare this Unit Agreement terminated.

9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. All costs and expenses incurred by Unit Operator in conducting Unit operations hereunder shall be apportioned among, borne and paid by the Working Interest Owners, all in accordance with this agreement and the Unit Operating Agreement. The 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. However, the Unit Operating Agreement shall not 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; in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement shall be filed with the Commissioner.

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 (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. Upon request therefor, 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, 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.

11. 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.

12. PLAN OF FURTHER DEVELOPMENT AND OPERATION. It is recognized and agreed by the parties hereto that the object and purpose of this agreement is to formulate and to put into effect a secondary recovery project in order to effect the optimum 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 Commissioner and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, or any other substance or a combination of any of said substances, whether produced from the Unitized Formation 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. This agreement is and shall be subject to the conservation laws of the State of New Mexico, to the valid rules, regulation and orders of the Commissioner and the Commission and to all other applicable federal, state and municipal laws, rules, regulations and orders. The parties hereto, subject to prior rights, if any, grant to 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. After commencement of secondary operations, Unit Operator shall furnish the Commissioner monthly injection and production reports for each well in the Unit Area. The Working Interest Owners and the Commissioner shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and the Commission.

13. PARTICIPATION. Exhibit B shows the percentages of participation to which each Tract shall be entitled if all Tracts within the Unit Area are committed as of the effective date of this agreement (the qualifications necessary for inclusion of a Tract being set forth in Section 14 hereof). If less than all Tracts within the Unit Area are committed as of the effective date of this agreement Unit Operator, with approval of the Working Interest Owners, as soon as practicable after the effective date of this agreement, shall file with the Commissioner and the Commission a schedule of committed Tracts as of said effective date, which said schedule shall be designated "Revised Exhibit B" and be considered for all purposes as a part of this agreement. Such Revised Exhibit B shall set forth opposite each such committed Tract the revised Tract Participation therefore (which shall be calculated by using the same Tract factors and formula which were used to arrive at the Tract Participation of each Tract as set out in Exhibit B attached hereto, but applying the same only to the committed Tracts). Such Revised Exhibit B unless disapproved by the Commissioner and the Commission within 30 days after filing, shall supersede, effective as of the effective date hereof, the Tract Participations set forth in Exhibit B attached hereto until a further revision or revisions thereof is approved by the Commissioner and the Commission. The Tract Participations shown on Exhibit B attached hereto, or as may be shown on the revised Exhibit B as above provided, shall govern the allocation of Unitized Substances on and after the effective date of this Unit Agreement as set forth in Section 3 hereof, and until the allocation schedule is revised pursuant to this agreement and the revised Tract Participations are approved by the Commissioner and the Commission.

14. TRACTS QUALIFIED FOR PARTICIPATION. From the effective date hereof, the Tracts which shall be entitled to participation shall be those Tracts which are described in Exhibit B and which, at any time, are qualified as follows:

(a) Each Tract as to which Working Interest Owners owning 100% of the Working Interest therein have become parties hereto and as to which Royalty Owners owning 75% or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning 100% of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than 75% of the Royalty Interest therein have become parties hereto, and further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the qualification of such Tract; and

(ii) 80% of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of paragraph (a) hereof have voted in favor of qualifying such Tract.

For the purpose of this paragraph (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all Tracts qualifying under paragraph (a) bears to the total Unit Participation, as shown on Exhibit B of all Working Interest Owners in all Tracts qualifying under paragraph (a).

(c) Each Tract as to which Working Interest Owners owning less than 100% of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for qualification of such Tract and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners, their successors and assigns, against all claims and demands which may be made by the owners of Working Interests in such tract who are not parties hereto and which arise out of the qualification of such Tract; and

(ii) 80% of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of paragraphs (a) and (b) have voted in favor of the qualification of such Tract and acceptance of the indemnity agreement.

For the purpose of this paragraph (c), A Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all Tracts qualifying under paragraphs (a) and (b) bears to the total Unit Participation, as shown on Exhibit B of all Working Interest Owners in all Tracts qualifying under paragraphs (a) and (b). Upon the qualification of such a Tract, the Unit Participation 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.

15. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for pressure maintenance) shall be apportioned among and allocated to the committed Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit B. The amount of Unitized Substances so allocated to

committed 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 such 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 Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal force and effect. It is hereby agreed that production of Unitized Substances from any such committed Tract 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 Tract Participation of such Tract shall, in the absence of a recordable instrument fixing the division of ownership, be divided among all owners of such parcels or portions in proportion to the number of surface acres in each.

16. BALANCING OF PRODUCTION. Unit Operator shall make a proper and timely gauge of all lease and other tanks located on each committed Tract in order to ascertain the amount of merchantable oil in such tanks, above the pipeline connections, as of 7:00 a.m. on the effective date hereof. All Unitized Substances which are a part of the prior allowable of the well or wells from which the same were produced shall be and remain the property of the Working Interest Owners entitled thereto as if the Unit had not been formed and such Working Interest Owners shall promptly remove same. Any such Unitized Substances 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 Unitized Substances which are in excess of the prior allowable of the well or wells from which the same were 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 over-produced with respect to the allowable of the well

or wells on that Tract and the amount of such over-production has been sold or otherwise disposed of, such over-production 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.

17. ROYALTY SETTLEMENT. 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 committed Tract, shall hereafter be entitled 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 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 Formation for use in pressure maintenance, stimulation of production or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner 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 formulae as may be prescribed or approved by the Commissioner; 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 Formation for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner, part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formulae as may be prescribed or approved by the Commissioner.

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

18. RENTAL SETTLEMENT. 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 order of the Commissioner pursuant to applicable laws and regulations.

19. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted so as to provide for the most economical and efficient recovery of such substances to prevent waste as defined by State laws or regulations.

20. DRAINAGE. Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from the committed Tracts by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

21. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons in and under lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Commissioner as to State leases shall by his approval hereof, or by approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of 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 committed

to this agreement, regardless of whether there is any development of any particular part of or Tract of unitized land, 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 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, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons in and under lands, other than those of the United States, in lands 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, as to the land committed so long as such lease remains subject hereto.

(e) 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 lease 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 at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term of such lease, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein, any such lease 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.

22. 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 assign-

ment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer; and no assignment or transfer of any Royalty Interest 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.

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

There must be an execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners owning a combined Unit Participation of at least 100 percent, and the execution or ratification of the agreement by Royalty Owners owning a combined interest of at least 100 percent of the Royalty Interest, in said Unit Area.

There must be filed at least one counterpart of this agreement for record in the office of the County Clerk of Roosevelt County, New Mexico, by the Unit Operator.

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 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 Working Interest Owners owning 75 percent Unit Participation whenever such Working Interest Owners determine that Unit operations are no

longer profitable, feasible or in the interest of conservation. Notice of any such termination shall be given by Unit Operator to all parties hereto.

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

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of 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.

24. 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 Commission and to appeal from orders issued under the regulations of said Commission or to apply for relief from any of said regulations or in any proceedings relative to operations before 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.

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 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.

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 of New Mexico, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

27. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or to produce Unitized Substances from any of the lands subject to 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.

28. LOSS OF TITLE. If any Tract of unitized land ceases to have sufficient Working Interest or Royalty Interest committed to this agreement to meet the conditions of Section 14 because of failure to title to any party hereto, such Tract shall be regarded as not committed hereto as of 7:00 a.m. on the first day of the calendar month in which such failure of title is finally determined; provided, however, that no such Tract shall be so regarded if same can be requalified under said Section 14 within ninety (90) days after the date on which such title failure was determined. If any such Tract cannot be so requalified, Unit Operator shall recompute the Tract Participation of each Tract of unitized land remaining subject to this agreement so that such Tract Participations shall remain in the same ratio one to another. Thereafter, Unit Operator shall revise Exhibit B conformably with such recomputation. Such revised exhibit shall be effective at 7:00 a.m. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the Royalty Owner whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working or Royalty Interest, or other interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally

settled, provided, that as to State land or leases, no payments of funds due the State of New Mexico shall be withheld, such funds of the State shall be deposited as directed by the Commissioner, all 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 title hereunder.

29. NONJOINER AND SUBSEQUENT JOINER. Any oil or gas interest within the Unit Area not committed hereto prior to the effective date of this agreement may thereafter be committed, upon compliance with the applicable provisions of this Section 29 and of Section 14 (TRACTS QUALIFIED FOR PARTICIPATION) by the owner or owners thereof subscribing or consenting to this agreement and, if such uncommitted interest is a working interest, by the owner of such interest also subscribing to the Unit Operating Agreement.

Such right of joinder subsequent to the effective date hereof shall be subject to such requirements or approvals and shall be upon such terms and conditions as may be agreed to by at least 65 percent of the then Voting Interest of the Working Interest Owners, and approval by the Commissioner, with an appropriate revision of Exhibit B, effective as of 7:00 a.m. on the first day of the calendar month next following such agreement by the Working Interest Owners.

After final approval of this agreement, joinder by a nonworking interest owner must be consented to in writing by the Working Interest Owners committed hereto and responsible for the payment of any benefits which may accrue hereunder in behalf of such nonworking interest.

30. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or it 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.

31. 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 agreement after the effective date of this agreement, or upon the proceeds or net proceeds derived therefrom. The Working Interest Owners in each Tract 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 not 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 State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

In order to avoid title failures which might incidentally cause the title to a Working Interest or Royalty Interest to fail, the owners of (1) the surface rights to each committed Tract, (2) severed mineral or royalty interest in said Tracts and improvements located on said Tracts not utilized for Unit Operations shall individually be responsible for the rendition and assessment, for ad valorem tax purposes, of all such property, and for the payment of such taxes, except as otherwise provided in any contract or agreement between such owners and a Working Interest Owner or, Owners. If any ad valorem taxes are not paid by such owner responsible therefor when due, Unit Operator may, at any time prior to tax sale, pay the same, redeem such property and discharge such tax liens as may arise through nonpayment. In the event Unit Operator makes any such payment or redeems any such property from tax sale, Unit Operator shall be reimbursed therefor by the Working Interest Owners in proportion to their respective Unit Participations then in effect, and Unit Operator shall withhold from any proceeds derived from the sale of Unitized Substances otherwise due to said delinquent taxpayer an amount sufficient to defray the costs of such payment or redemption, such withholding to be distributed among the Working Interest Owners in proportion to their respective contributions toward such payment or redemption. Such withholding shall be without prejudice to any other remedy, either at law or in equity, which may be available for exercise by the Unit Operator or by the Working Interest Owners.

32. 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, 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 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.

33. 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.

34. BORDER AGREEMENTS. Subject to the approval of the Commissioner, the Unit Operator, with concurrence of 100 per cent of the then Voting Interests of the Working Interest Owners, may enter into a border-protection agreement or agreements with the working interest owners of lands adjacent to the committed Tracts with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interest.

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

CHAMPLIN PETROLEUM COMPANY

By _____
Vice President

ATTEST:

Secretary

WARREN AMERICAN OIL COMPANY

By _____
Vice President

ATTEST:

Secretary

ATLANTIC RICHFIELD COMPANY

BY _____

ATTEST:

SHELL OIL COMPANY

By _____

STATE OF TEXAS X
 X
COUNTY OF TARRANT X

THE foregoing instrument was acknowledged before me this ____ day of _____, 1970, by _____, Vice President of CHAMPLIN PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires:

Notary Public for Tarrant County,
State of Texas

STATE OF

COUNTY OF

THE foregoing instrument was acknowledged before me this ____ day of _____, 1970, by _____, Vice President of WARREN AMERICAN OIL COMPANY, a Texas corporation, on behalf of said corporation.

My commission expires:

Notary Public for
County, State of

STATE OF

COUNTY OF

THE foregoing instrument was acknowledged before me this ____ day of _____, 1970, by _____, _____ of ATLANTIC RICHFIELD COMPANY, a _____ corporation, on behalf of said corporation.

My commission expires:

Notary Public for
County, State of

STATE OF

COUNTY OF

THE foregoing instrument was acknowledged before me this ____ day of _____, 1970, by _____, _____ of SHELL OIL COMPANY, a _____ corporation, on behalf of said corporation.

My commission expires:

Notary Public for
County, State of

STATE OF

COUNTY OF

THE foregoing instrument was acknowledged before me this ____ day of _____, 1970, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My commission expires:

Notary Public for
County, State of

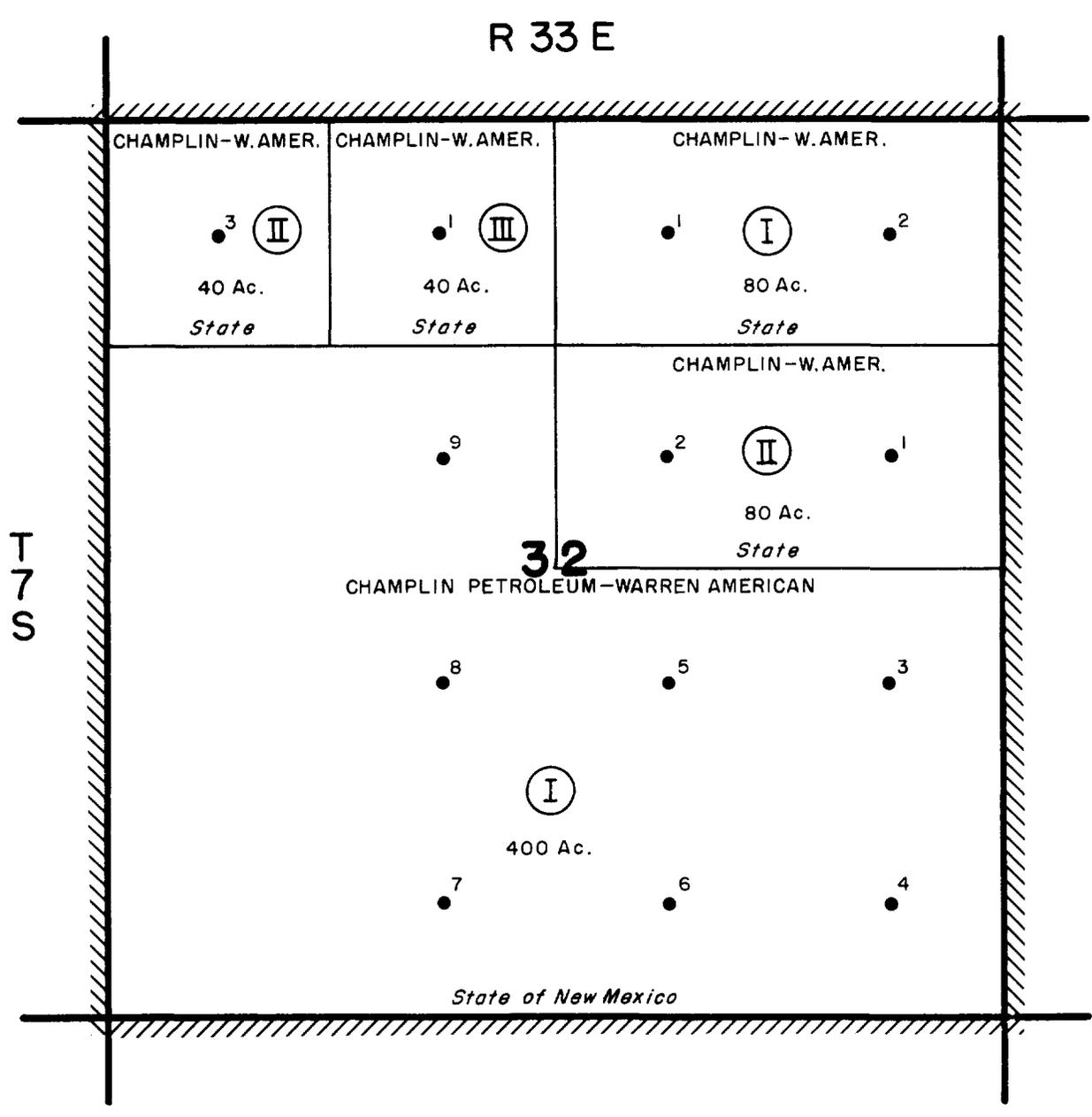
STATE OF

COUNTY OF

THE foregoing instrument was acknowledged before me this ____ day of _____, 1970, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My commission expires:

Notary Public for
County, State of



LEGEND:

- //// UNIT AREA
- (II) TRACT NUMBER

EXHIBIT A
Champlin Petroleum Company
CHAVEROO FIELD
STATE 32-7-33 UNIT
 Roosevelt County, New Mexico

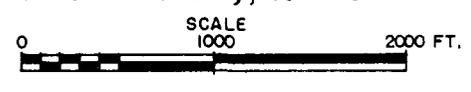
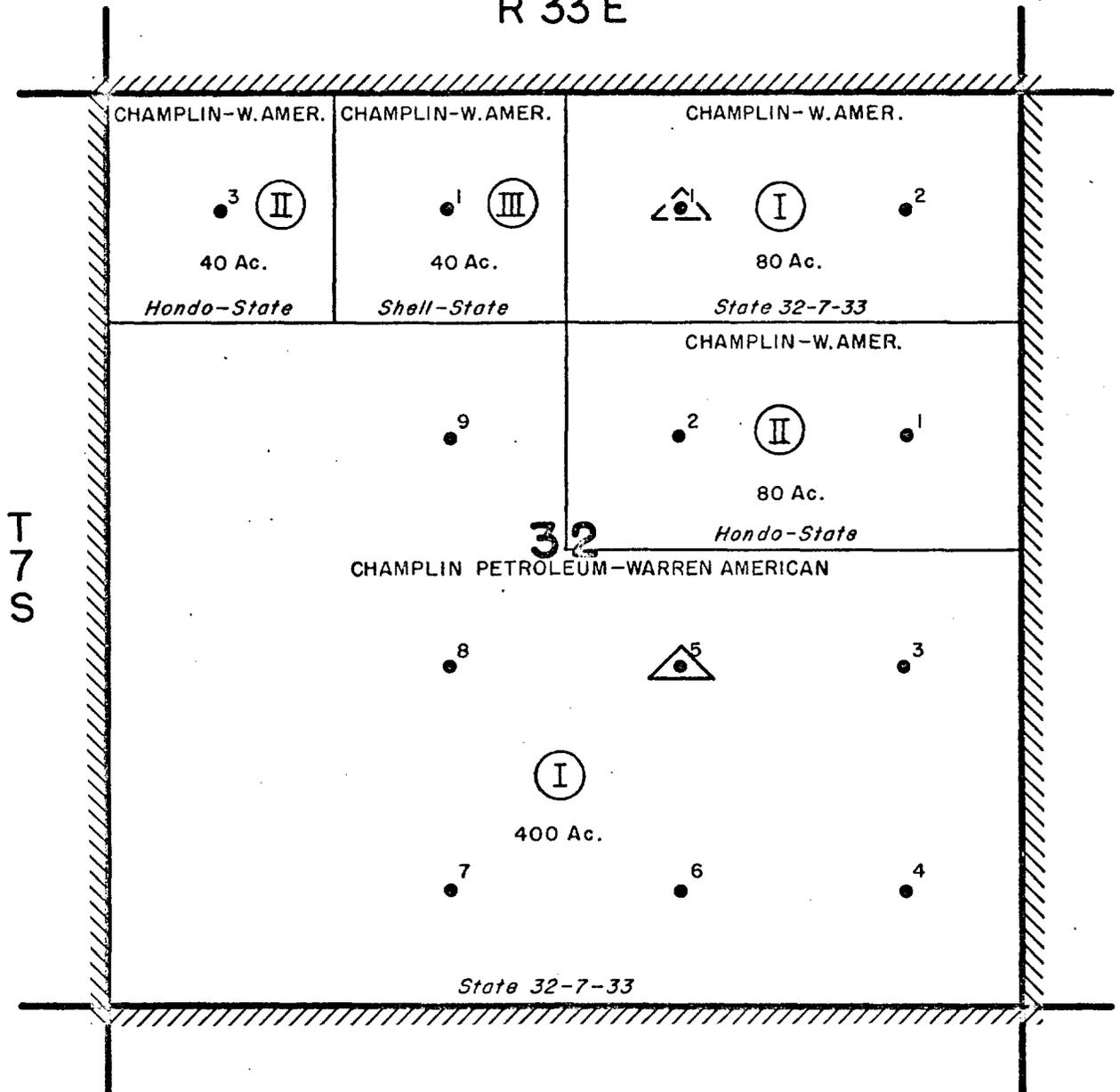


EXHIBIT "B"

SCHEDULE SHOWING TRACT PARTICIPATIONS AND PERCENTAGE AND KIND OF OWNERSHIP
OF ALL LANDS WITHIN THE STATE 32-7-33 UNIT
ROOSEVELT COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	ACRES	SERIAL NO. & DATE OF LEASE	BASIC ROYALTY & PER-CENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY & PERCENTAGE	WORKING INTEREST & PERCENTAGE	PERCENTAGE TRACT PARTICIPATION
I	T7S, R33W ^E N/2NE/4, S/2NW/4 and S/2	480	K-2734-2 9-18-62 H.B.P.	State of New Mexico 12.50% (School Lands)	Champlin Pet. Co. Warren Am. Oil Co.	None	Champlin 50.00% Warren 50.00%	62.887%
II	T7S, R33W ^E NW/4NW/4, S/2NE/4	120	E-10130, Orig. 6-19-56 H.B.P.	State of New Mexico 12.50% (School Lands)	Atlantic Richfield	Atlantic Richfield Co. 12.50%	Champlin 50.00% Warren 50.00%	32.096%
III	T7S, R33E NE/4NW/4	40	K-3934 2-18-64 H.B.P.	State of New Mexico 12.50% (School Lands)	Champlin Pet. Co. Warren Am. Oil Co.	Shell Com- panies Foundation 12.50%	Warren 50.00% Chaplin 50.00%	5.017%

R 33 E



LEGEND:

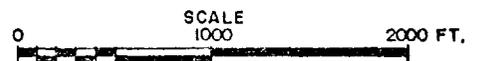
////// UNIT AREA

Ⓜ TRACT NUMBER

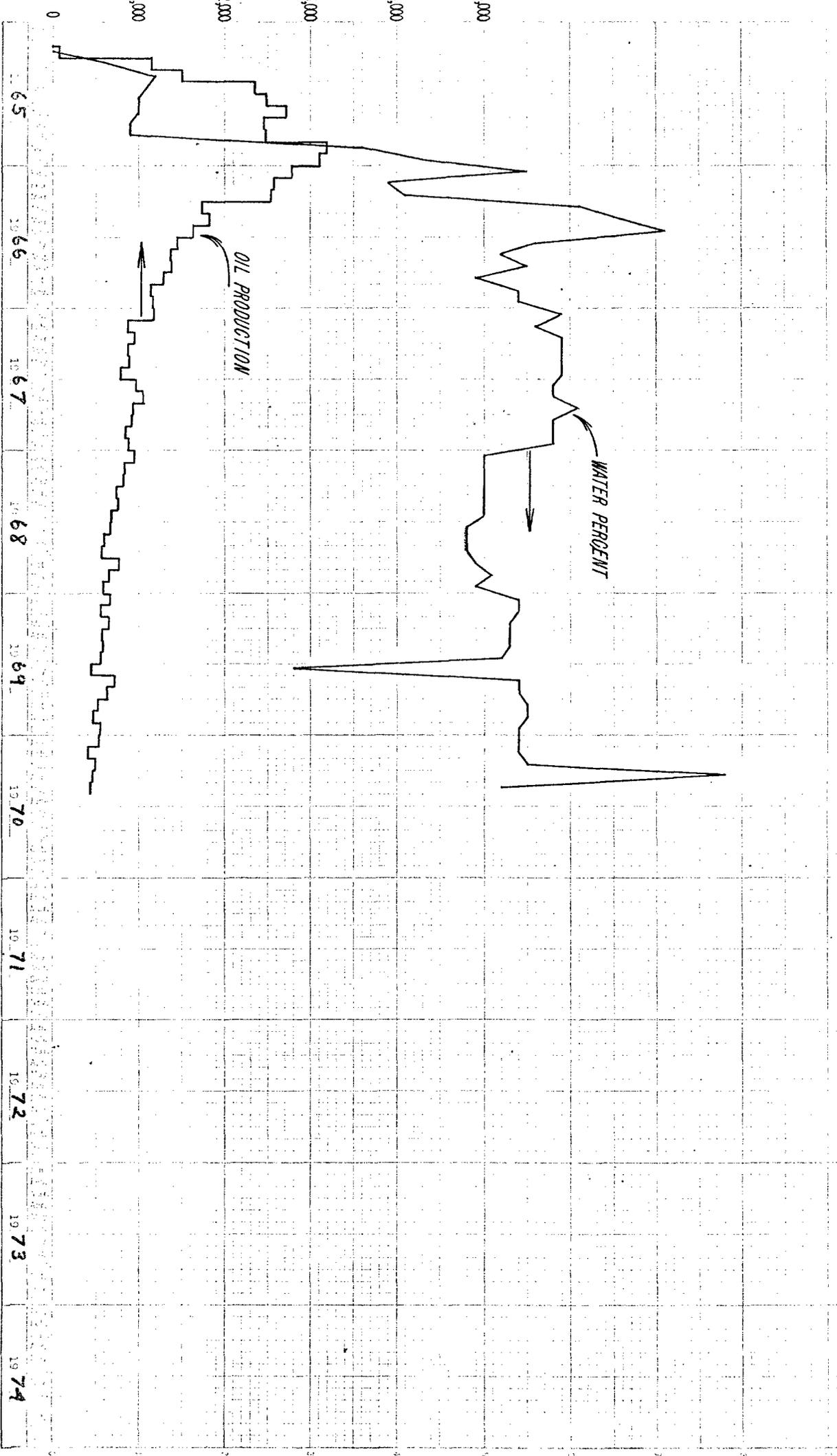
▲● PRESENT WATER INPUT WELL

▲● PROPOSED WATER INPUT WELL

Champlin Petroleum Company
CHAVEROO FIELD
STATE 32-7-33 UNIT
Roosevelt County, New Mexico



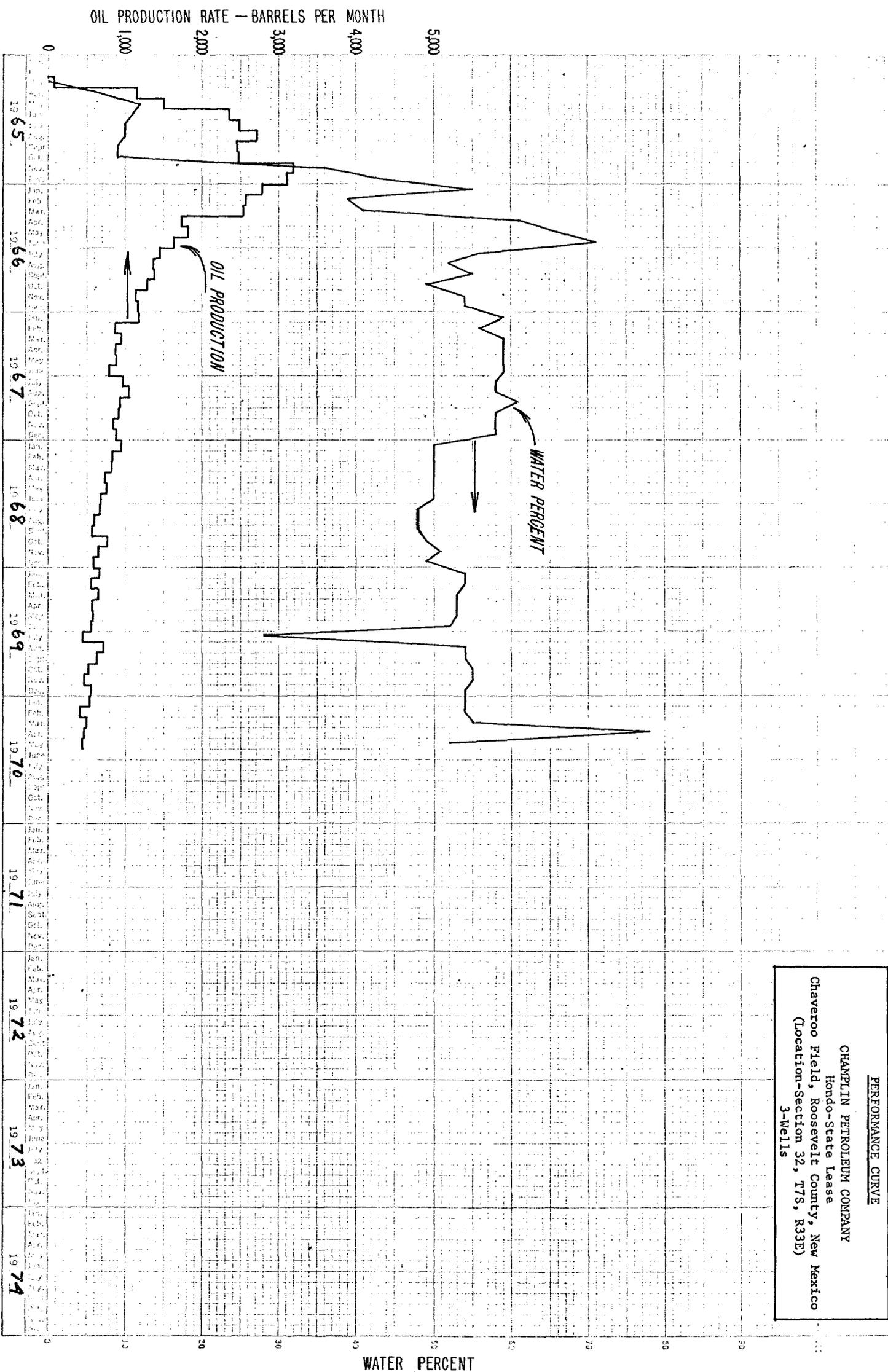
OIL PRODUCTION RATE — BARRELS PER MONTH



PERFORMANCE CURVE

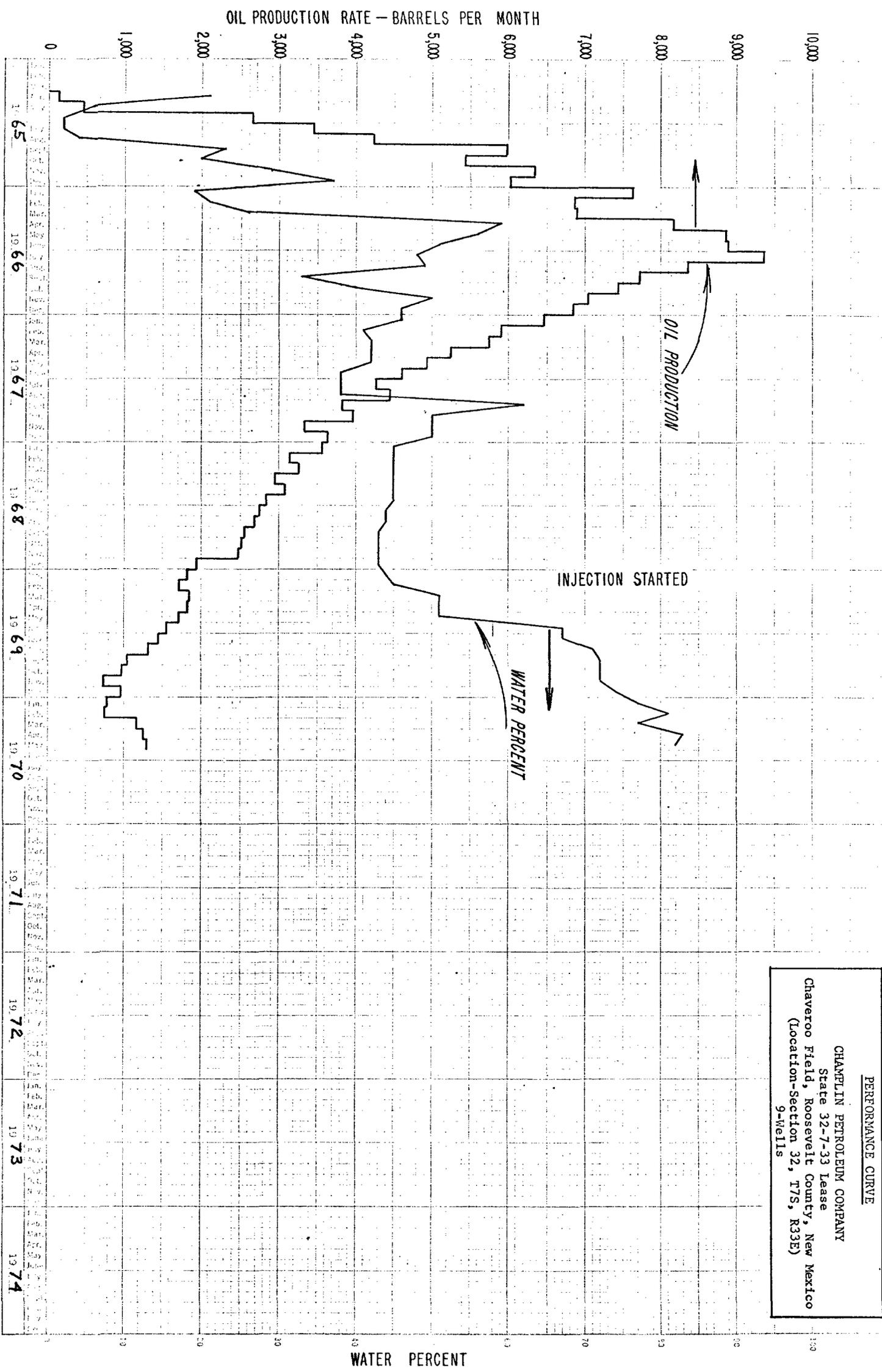
CHAMPLIN PETROLEUM COMPANY
Hondo-Scate Lease
Chaveroo Field, Roosevelt County, New Mexico
(Location-Section 32, T7S, R33E)
3-Wells

WATER PERCENT

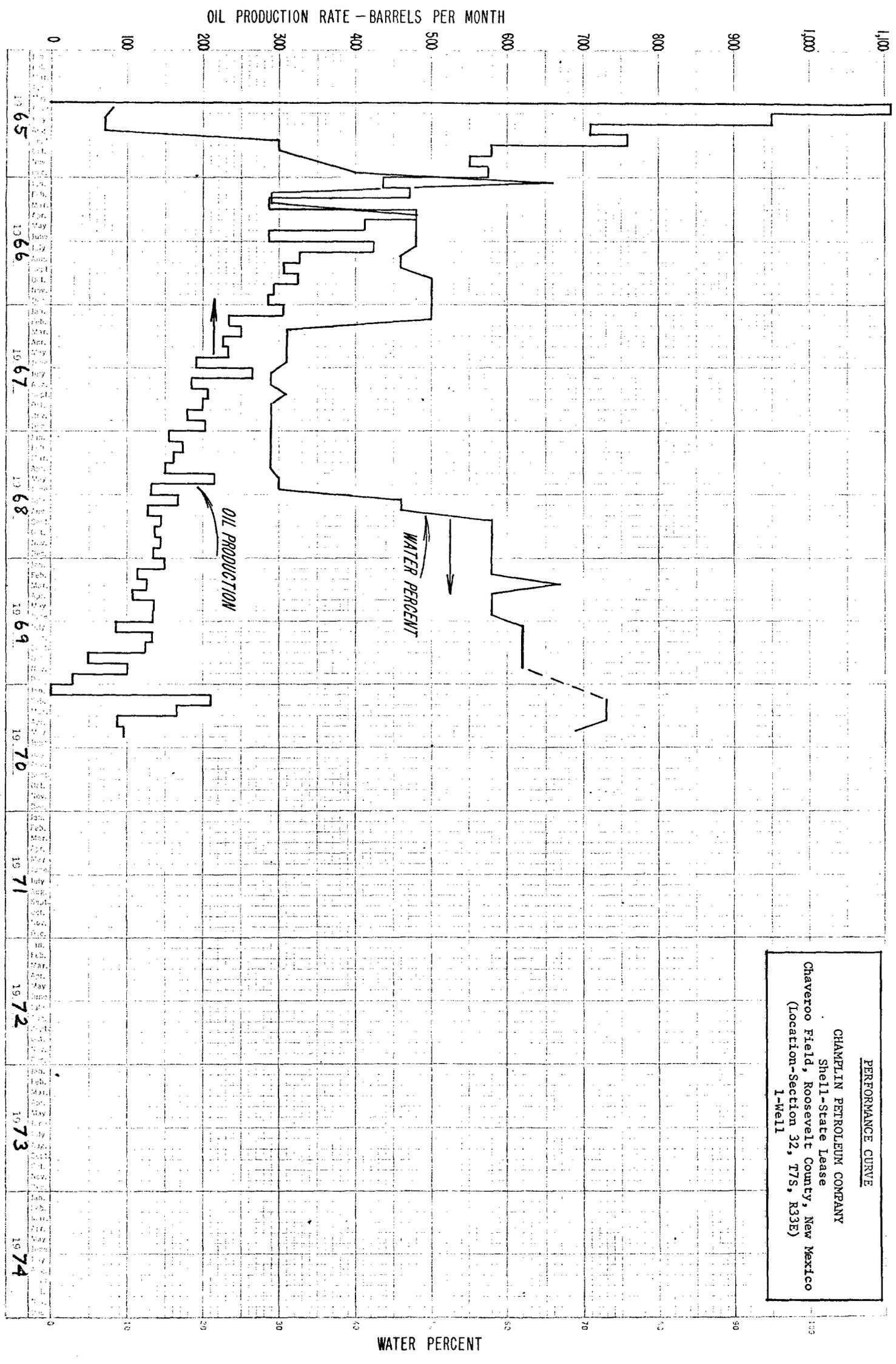


PERFORMANCE CURVE
CHAMPLIN PETROLEUM COMPANY
Hondo-State Lease
Chaveroo Field, Roosevelt County, New Mexico
(Location-Section 32, T7S, R33E)
3-Wells

10 YEARS BY MONTHS DENOMINATED BY MONTHS



PERFORMANCE CURVE
 CHAMPLIN PETROLEUM COMPANY
 State 32-7-33 Lease
 Chaveroo Field, Roosevelt County, New Mexico
 (Location-Section 32, T7S, R33E)
 9-Wells



PERFORMANCE CURVE
 CHAMPLIN PETROLEUM COMPANY
 Shell-State Lease
 Chavero Field, Roosevelt County, New Mexico
 (Location-Section 32, T7S, R33E)
 1-Well

CHAMPLIN PETROLEUM COMPANY

INDIVIDUAL WELL CURRENT RATE DATA-MAY 1970

PROPOSED STATE 32-7-33 UNIT
 CHAVEROO FIELD, ROOSEVELT COUNTY, NEW MEXICO
 (Section 32, T7S, R33E)

<u>Lease & Well No.</u>	<u>Oil Bbls/Day</u>	<u>Water Bbls/Day</u>	<u>Gas Mcf/Day</u>	<u>Water Percent</u>	<u>Gas-Oil Ratio Cu.Ft./Bbl.</u>
State 32-7-33 Well No. 1	3	3	5.6	50	1,900
State 32-7-33 Well No. 2	1	18	3.4	95	3,533
State 32-7-33 Well No. 3	3	6	3.0	67	1,033
State 32-7-33 Well No. 4	7	31	5.9	82	868
State 32-7-33 Well No. 5	W A T E R I N J E C T I O N			W E L L	
State 32-7-33 Well No. 6	4	4	7.8	50	2,000
State 32-7-33 Well No. 7	8	7	6.8	48	876
State 32-7-33 Well No. 8	6	22	4.8	79	818
State 32-7-33 Well No. 9	11	97	10.0	90	928
Hondo-State No. 1	6	8	17.1	57	3,000
Hondo-State No. 2	5	4	10.0	45	2,014
Hondo-State No. 3	4	4	3.9	50	1,099
Shell-State No. 1	3	7	3.5	69	1,100

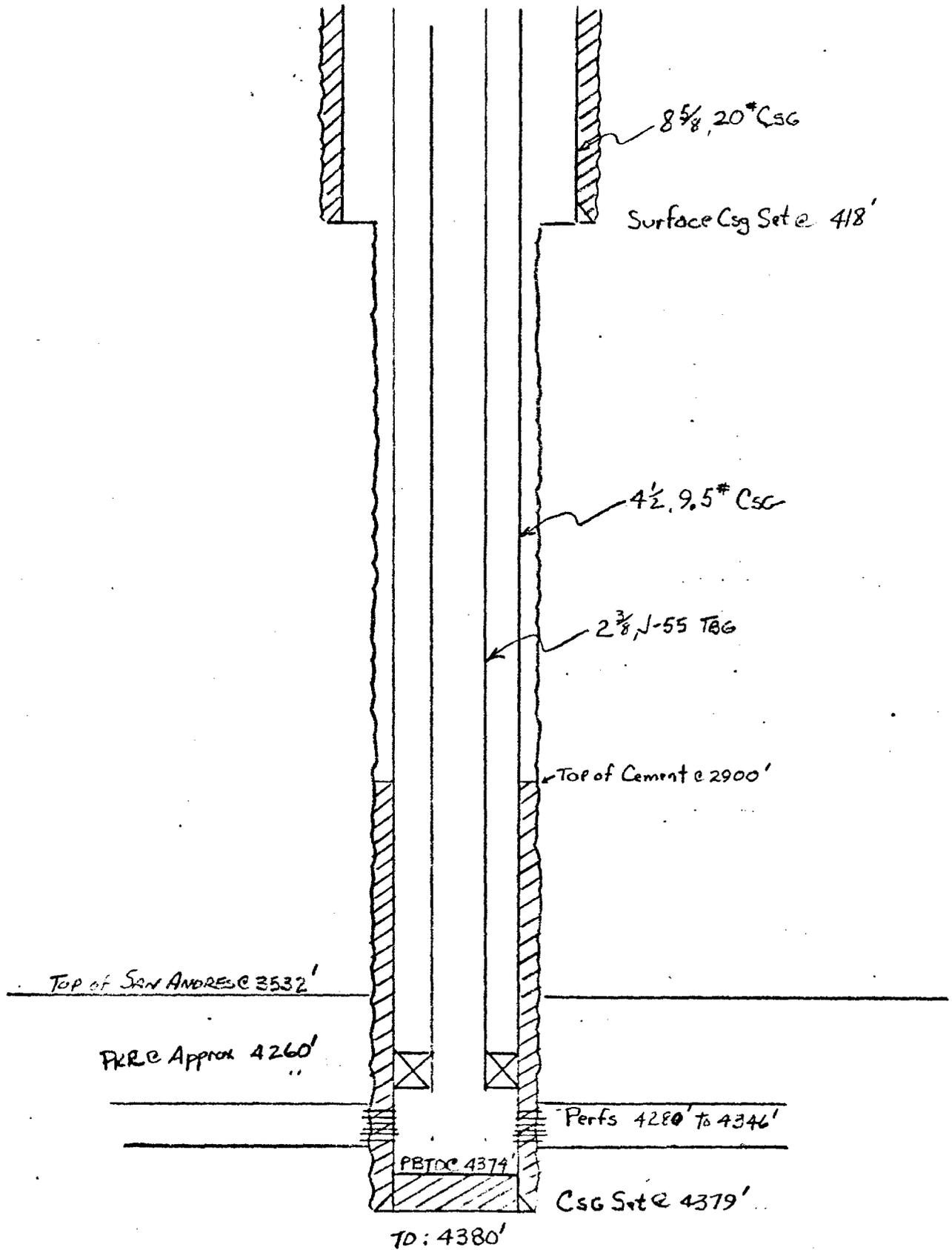
CHAMPLIN PETROLEUM COMPANY

INJECTION WELL STATISTICS

State 32-7-33 Lease, Well No. 5
Chaveroo Field, Roosevelt County, New Mexico

<u>Year & Month</u>	<u>Water Input Rate, Bbls/Day</u>	<u>Wellhead Pressure, Psig</u>	<u>Water Input for Month, Bbls.</u>	<u>Cumulative Water Input Since 1-1-69 Barrels</u>
Jan. 1969	383	170	6,898	6,898
Feb.	301	320	8,430	15,328
Mar.	515	600	15,970	31,298
April	511	760	15,326	46,624
May	580	800	17,954	64,578
June	620	760	18,595	83,173
July	617	840	19,121	102,294
Aug.	717	840	22,235	124,529
Sept.	725	890	21,739	146,268
Oct.	688	860	17,898	164,166
Nov.	605	520	18,139	182,305
Dec.	540	750	<u>16,725</u>	199,030
Total 1969			199,030	
Jan. 1970	654	780	20,272	219,302
Feb.	712	790	19,935	239,237
Mar.	751	800	23,279	262,516
April	657	860	19,724	282,240
May	812	800	25,192	307,432

CHAMPLIN PETROLEUM COMPANY
STATE 32-7-33 WELL No 1
ROOSEVELT Co, N.M.
D/ELEV - 4438'



R 32 E

R 33 E

CHAVEROO FIELD

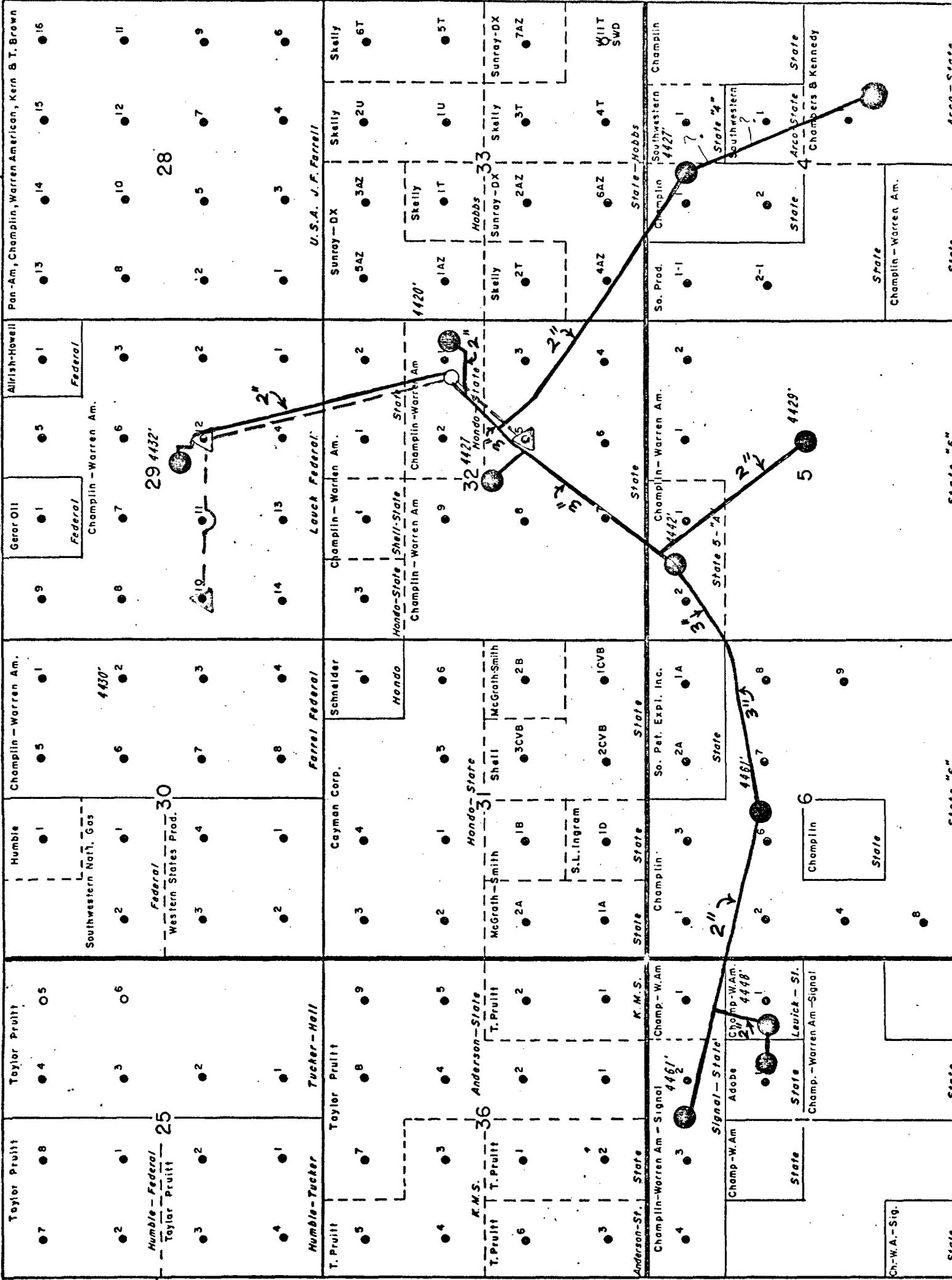
Chaves & Roosevelt Cos., N.Mex.

Actual Installation

May 1970



Champlin Petroleum Co.
Salt Water Gathering &
Injection System



CHAVEROO FIELD
CHAVES & ROOSEVELT COUNTIES
NEW MEXICO

EXHIBIT A

FORMATION WATER ANALYSIS (SAN ANDRES)
Milligrams per Liter

Na	66,600
Ca	27,680
Mg	4,860
SO ₄	200
Cl	165,600
HCO ₃	nil
CO ₃	<u>nil</u>
Total Solids	264,940
Iron	None
Specific Gravity @ 60° F	1.174
Hydrogen Sulfide, H ₂ S	Present