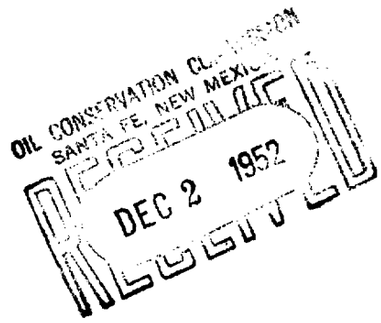
Case 446



December 1, 1952

Re: San Juan 32-8 Unit
San Juan County,
New Mexico

COPY

Mr. R. F. Rood
Phillips Petroleum Company
Suite 7, 316½ So. Dewey Avenue
Bartlesville, Oklahoma

Dear Sir:

I have examined the proposed form of the San Juan 32-8 Unit Agreement recently submitted by your office for our study and consideration.

It appears that the Unit Agreement conforms with similar Units, heretofore approved by this office. We are withholding formal approval pending the outcome of a hearing before the Oil Conservation Commission.

Very truly yours,

GUY SHEPARD
Commissioner of Public Lands

cc: Oil Conservation Commission (1)
Santa Fe, N.M.
U. S. Geological Survey (3)
Roswell, New Mexico
E. H. Foster (1)
Amarillo, Texas

ct

ILLEGIBLE

UNIT OPERATING AGREEMENT
SAN JUAN 32-8 UNIT AREA

THIS AGREEMENT, made and entered into this _____ day of _____, 1952, by and among Phillips Petroleum Company, a Delaware corporation, hereinafter sometimes referred to as "Unit Operator", and such other parties owning working interests subject to the Unit Agreement for the Development and Operation of the San Juan 32-8 Unit Area as may execute this agreement, hereinafter sometimes called "Nonoperators", all parties being sometimes referred to as "Working Interest Owners",

W I T N E S S E T H:

WHEREAS, the parties hereto are also parties to that certain Unit Agreement for the Development and Operation of the San Juan 32-8 Unit Area, County of San Juan, State of New Mexico, hereinafter called the "Unit Agreement", embracing the following described land:

New Mexico Principal Meridian:

Township 31 North, Range 8 West

Sections 1,2,3,4: All
Sections 9,10,11,12,13,14,15,16: All
Sections 21,22,23,24: All

Township 32 North, Range 8 West

Section 7: Lots 1,2,3,4,5,6, $E\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}$
Section 8: Lots 1,2,3, and 4, $S\frac{1}{2}$
Section 9: Lots 1,2,3, and 4, $S\frac{1}{2}$
Section 10: Lots 1,2,3, and 4, $S\frac{1}{2}$
Section 11: Lots 1,2,3, and 4, $S\frac{1}{2}$
Section 12: Lots 1,2,3, and 4, $S\frac{1}{2}$
Section 13,14,15,16,17: All
Section 18: Lots 1,2,3, and 4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$
Section 19: Lots 1,2,3, and 4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$
Section 20,21,22,23,24,25,26,27,28,29: All
Section 30: Lots 1,2,3, and 4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$
Section 31: Lots 1,2,3, and 4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$
Section 32,33,34,35,36: All

San Juan County, New Mexico, containing 27,500.28 acres, more or less, and

WHEREAS, the parties hereto, in accord with the provisions of Section 7 of the Unit Agreement, desire to provide for the apportionment of costs and benefits among Working Interest Owners and to establish related operating arrangements,

NOW THEREFORE, premises considered, the parties hereto mutually agree that:

1. Confirmation of Unit Agreement

The Unit Agreement, including the exhibits thereto, is hereby confirmed and adopted and made a part of this agreement. Terms employed in this agreement shall

bear the same meaning as given them in the Unit Agreement. The unit area shall be developed and operated for the production and handling of unitized substances in accord with the Unit Agreement and this Unit Operating Agreement. In the event of any inconsistency or conflict between provisions of this agreement and the Unit Agreement, the Unit Agreement shall prevail.

2. Titles

(a) Representation of Ownership

Each of the parties hereto represents to all other parties hereto that its ownership of oil, gas and mineral interests in the unit area is correctly stated in the schedule attached as Exhibit B to the Unit Agreement. In the event such representation of any party is erroneous or the title of any party hereto fails, in whole or in part, the interests of the parties hereunder shall be accordingly adjusted to the end that no party shall be credited with interests that it does not own. Parties contributing acreage to the unit and receiving credit hereunder therefor shall, subject to the provisions of Section 2 (c) below, bear the entire loss occasioned by any failure of title or defect in their title or encumbrance thereon and shall save the other parties hereto harmless from any obligation or liability on account thereof. All title curative expense and all costs and expenses incurred in defending or establishing title to any interest in the unitized substances shall be borne by the party or parties hereto who claim such interest.

(b) Furnishing Title Data

Within fifteen (15) days following its execution of this agreement, each Working Interest Owner shall furnish to the Unit Operator copies of its leases, operating agreements or other documents upon which it relies as establishing its ownership of working interests, together with copies of its rental receipts or other evidence satisfactory to establish that such leases, agreements and/or other documents remain in full force and effect. It shall also furnish any title data in its possession relating to its working interest ownership, including the title opinion of its attorney and any curative instruments acquired in relation thereto. Where outstanding title requirements have not been satisfied, the Working Interest Owner whose title is affected shall proceed to satisfy such title requirements with due diligence and furnish proof of the satisfaction thereof to the Unit Operator.

(c) Examination of Title for Drilling

As a prerequisite to the drilling of any well hereunder, Unit

Operator shall obtain a title opinion by a competent attorney or attorneys selected by it, based upon examination of complete abstract of title certified to date and/or the official County and/or State or Federal records as well as examination of the material submitted pursuant to Section 2 (b) above, approving title for drilling purposes to the half section drilling block (where the well is to be drilled to the Mesaverde or shallower formations) or to the appropriate spacing unit (where the well is to be drilled to formations below the Mesaverde) upon which the well is to be located; provided, however, that Unit Operator shall not be required to re-examine title to any drilling block or spacing unit for the drilling of any second or subsequent well thereon. The party or parties owning working interests in such drilling block or spacing unit shall furnish such abstracts promptly as required and shall satisfy title requirements made by the examining attorney, at such party's or parties' sole expense, without delay in order that the drilling obligation stated in the Unit Agreement shall be timely performed. Costs of title examination shall be charged as a part of the cost of drilling the well. Approving opinion of title as a prerequisite of drilling may be waived upon approval of the owners of eighty per cent (80%) of the Working Interest committed to the unit. Any party hereto interested in obtaining the drilling of a well may post a bond in form satisfactory to the Unit Operator in an amount equal to one and one-half times the estimated cost of the proposed well, conditioned to protect all parties hereto against any loss of their investment in the well by reason of title failure, whereupon the requirement herein for an approving opinion of title will be waived. If title subsequently fails to any tract or tracts, the title to which has been cleared for drilling under this section, the Working Interest Owner thereof shall bear the entire loss in participation in unitized substances produced after such title failure which would be attributable to the leasehold estate or working interest in such tract under the terms of this agreement, but shall not be obligated to save any parties hereto harmless from any other loss occasioned thereby except to the extent of any indemnity agreement which may have been executed as hereinabove provided.

3. Apportionment of Costs and Benefits

Except as herein otherwise expressly provided, all costs, expenses and liabilities accruing or resulting from exploration, development, operation and maintenance of the unitized land shall be borne, and all unitized substances produced hereunder and other benefits accruing hereunder shall be owned and shared, by the

Working Interest Owners who have executed the Unit Agreement and this agreement, as follows:

(a) Costs and Benefits in Mesaverde and Shallower Formations

Costs and benefits accruing in the development and operation of any drilling block (as defined in Section 11 of the Unit Agreement) prior to its admission into a participating area shall be borne and shared in the proportion that the acreage owned by each of such Working Interest Owners owning working interests in the drilling block bears to the total of working interests owned by all such Working Interest Owners owning working interests in the drilling block. Costs and benefits accruing or resulting from development and operation of any participating area shall be borne by such Working Interest Owners owning interests in such participating area in the same proportion that the interest owned by each bears to the total of interests owned by all such Working Interest Owners in said participating area. Except for the adjustment in investment in the field facilities as hereinafter provided, no adjustment of investment or previously incurred costs shall be made upon the admission of a drilling block into the participating area, but upon such admission all equipment used for the operations of the participating area shall thenceforth be owned by the Working Interest Owners in the enlarged participating area in the same proportions as provided herein for their sharing of costs and benefits. Notwithstanding the foregoing, however, when any drilling block is admitted to the participating area prior to the completion thereon of a well capable of producing unitized substances in paying quantities from the formation to which such participating area is applicable, Unit Operator shall comply with the obligation imposed by the Unit Agreement to drill a well thereon to the horizon from which production is being secured in the participating area, and all costs of drilling, completing, testing and equipping such well to produce shall be charged to and borne by such Working Interest Owners owning working interests in such drilling block in the proportions which the interests of each bear to the aggregate of all the interests of all such Working Interest Owners within said drilling block. Any such well shall be owned and operated for the benefit of parties owning interests in the participating area in the same manner as other wells in such participating area. Upon admission of a drilling block into a participating area, there shall be an adjustment of the cost of field facilities among all such Working Interest Owners in the enlarged participating area so that the cost of field facilities allocable to the enlarged participating area shall be borne by such Working Interest Owners in proportion to their participation in costs and benefits of operation of the enlarged participating area.

Where field facilities serve more than one participating area, costs and ownership thereof shall be allocated between participating areas on a well basis and shall be adjusted upon drilling of additional wells so that each participating area will bear such costs and own such field facilities in the proportion that the number of wells within such participating area, which upon their completion shall have been capable of producing unitized substances in paying quantities, bears to the total number of such wells within the unit area. No adjustment between participating areas shall be made on account of the cessation of production in paying quantities from any well or wells. "Field facilities", as that term is used in this section, shall mean facilities which are installed for serving the entire unit operation, such as, but not limited to, warehouses, field offices, camps, gathering systems, field tankage other than that serving a particular well or drilling block, power stations and power lines, water stations and water lines. Costs of field facilities shall be deemed to be the tangible and intangible costs thereof as reflected by the Operator's books, depreciated at the rate of four per cent (4%) per annum, or fractional portion thereof, up to the period an adjustment is required. In the event book costs cannot be determined on certain classifications of equipment, the current market prices in effect as of the date a drilling block is admitted to the participating area shall be used as a basis for pricing. Roads shall not be considered a part of Field Facilities. Costs of all road construction required for the drilling of the six test wells in accord with Section 9 of the Unit Agreement shall be allocated to the working interest owners owning working interest in the six Drilling Blocks upon which said test wells are drilled on an acreage basis. Roads required for the drilling of subsequent wells shall be charged as a part of the drilling costs and borne by the same party or parties as are required to pay the costs of drilling such wells. There will be no reallocation of road costs. In the event any well or wells capable of producing unitized substances in paying quantities shall have been completed prior to the effective date of this agreement, such well or wells shall be turned over to the Unit Operator for operation hereunder on the first day of the month following the said effective date of this agreement, and the half section drilling block on which each such well is located shall constitute or become a part of the participating area for the formation in which such well is completed. Likewise, if any Working Interest Owner shall have started any well but it shall not have been completed on the effective date of this agreement, such Working Interest Owner shall proceed with

due diligence to complete the drilling of such well and, if dry, to plug and abandon it or, if a producer, to test, complete and equip it to produce and then turn it over to the Unit Operator for operation hereunder. Adjustment for any such well or wells shall be only as hereinabove provided.

(b) Costs and Benefits in Formations Below the Mesaverde

The cost of drilling, equipping and completing the initial test well projected to a depth below the base of Mesaverde formation and the cost of plugging and abandoning same if a dry hole shall be paid by all of such Working Interest Owners each in the proportion that its ownership of working interests on an acreage basis within the unit area bears to the total of all such interests of such parties. Costs of drilling the second or any subsequent test well to formations lying below the Mesaverde, which is not required to be drilled by the terms of the Unit Agreement, shall be only in accord with an agreement to be reached by the parties participating in the drilling of such second or additional test wells. In the event any such test well so drilled shall encounter unitized substances in paying quantities so as to justify the establishment of a participating area or the enlargement of an existing participating area for the formation encountered, such participating area or enlargement shall be formed as provided in the Unit Agreement. On the establishment of any participating area, there shall be a retroactive adjustment of the cost of drilling, completing and equipping for production and operating of the said test well and of the cost of field facilities, to the end that the owners of working interests in the participating area newly established shall reimburse without interest the party or parties who paid for the costs and expenses of drilling, completing and equipping for production and operating the well less any income derived by said party or parties up to the date of settlement, and thereafter the costs incurred and benefits derived from the operation of the well shall be borne by and shall inure to the benefit of the Working Interest Owners in the participating area in proportion to their ownership of interests therein. On the enlargement of any participating area, there shall be an investment adjustment between the owners of working interests in the enlarged participating area, to the end that the investment within the enlarged participating area, including the investment in the allocated portion of field facilities, shall be paid for by the affected Working Interest Owners in the enlarged participating area in proportion to the interests of each therein and in proportion to their shares in the costs of operation and revenue to

be derived from the enlarged participating area, and also to the end that the parties who have previously paid said costs shall be reimbursed on the basis hereinafter set forth. The affected Working Interest Owners in the participating area before its enlargement shall receive credit for the intangible cost of drilling, completing and equipping for production all wells capable of producing unitized substances situated within said participating area. The costs to be so credited shall be measured by the average cost of drilling, completing and equipping for production wells of like character and depth in the field in a good and workmanlike manner at the time when said wells were drilled. Credit shall also be given for the casing and other tangible properties and facilities installed in the wells or used in connection with the operation thereof at a percentage of the original cost, such percentage to be determined as provided in the Accounting Procedure. The affected Working Interest Owners on any tract outside of the participating area that is to be admitted to the enlarged participating area shall likewise receive credit for the intangible cost of drilling, completing and equipping any wells on their respective lands so admitted, together with the value of the tangible equipment, facilities and structures located thereon and used in connection therewith, on the basis above set out. The sum total of all credit shall be the investment cost apportionable to the enlarged participating area. The investment adjustment shall be made by cash settlement among the Working Interest Owners through the Unit Operator. No credit shall be given for the previous cost of operating any wells or repairing or maintaining other property, nor shall there be any debit for or on account of production taken from wells prior to the effective date of the enlargement of the participating area.

4. Royalty and Other Payments Out of Production

One-eighth(/8) of all of the unitized substances produced hereunder, or the proceeds thereof, shall be set aside for the payment or delivery in kind, as the case may be, in accord with underlying leases and other documents requiring payment of royalties, by the Unit Operator or the Working Interest Owner in accord with Section 12 of the Unit Agreement. Where any working interest is burdened by royalties in excess of one-eighth 1/8) or by overriding royalties, oil payments or other payments out of production, the required payment in excess of 1/8 shall be borne by the owner of the working interest so burdened. Before receiving its proportionate share of the unitized substances produced hereunder or the proceeds thereof, each Working Interest Owner shall pay or secure the payment of any such excess royalties or other payments constituting a burden upon its working interest.

5. Rentals

Each Working Interest Owner whose interest is chargeable with rentals, minimum royalties in excess of the royalties on actual production, or other payments in the nature of rentals required to maintain its working interest rights, shall properly pay such rentals, minimum royalties or other payments. The inadvertent failure of any party to properly make such payments shall not subject such party to liabilities hereunder except to the extent hereinabove provided in the event of loss of title.

6. Test Wells

Unit Operator is hereby authorized and directed to carry out the drilling program outlined in Section 9 of the Unit Agreement. Subject to obtaining the necessary approval of State and Federal authorities as therein required, it is agreed that locations for the six (6) required test wells shall be as follows:

SW¼ Sec. 15, T32N, R8W
SW¼ Sec. 17, T32N, R8W
SW¼ Sec. 29, T32N, R8W
NE¼ Sec. 35, T32N, R8W
SW¼ Sec. 10, T31N, R8W
NE¼ Sec. 23, T31N, R8W

Said wells shall be drilled in such sequence as may be determined by Unit Operator.

7. Determination by Majority Vote

In any matter in which the action of the Unit Operator requires the concurrence of the working interest parties hereto or any of them, Unit Operator will be governed by the decision of the owners of a majority of the working interest in the participating area, or the nonadmitted drilling block, as the case may be, unless otherwise specified herein or in the Unit Agreement, determined in the proportion that the acreage interest of each such party in the participating area or such affected drilling block bears to the total acreage interest in the participating area or affected drilling block. Matters affecting the unit area as a whole, shall be determined in accordance with the proportionate acreage interest as above defined in the entire unit area. In any case where one working interest party hereto holds such a majority in interest, but less than the full working interest in the area affected, his vote shall require the concurrence of one additional party in order to constitute the controlling vote.

In any case in which it is necessary to poll the working interest parties hereto, Unit Operator shall notify all affected Working Interest Owners in writing of the question for decision and its recommended course of action. Each such Working Interest Owner shall within ten (10) days of receipt of such notice advise Unit Operator in writing of its decision thereon. Within five (5) days thereafter Unit Operator

shall notify each affected Working Interest Owner in writing of the result of such poll. In the event that any Working Interest Owner fails to advise Unit Operator in writing of its decision, within the 10-day period above provided, it shall be conclusively presumed that its decision is in accord with the course of action originally recommended by Unit Operator, except that, if the matter for decision is one where the nonresponding Working Interest Owner might elect, pursuant to the provisions of this agreement, not to participate originally in some element of cost or expense but instead to pay his share thereof out of production or the proceeds thereof, it shall be conclusively presumed that such nonresponding Working Interest Owner elects to follow that latter course.

The Unit Operator, except when otherwise required by governmental authority, shall not do any of the following without first obtaining the approval of such a majority interest, as provided above, in the affected participating area or drilling block or unit area, as the case may be:

(a) Make any expenditure in excess of Five Thousand Dollars ($5,000.00) other than normal operating expenses, except in connection with a well, the drilling of which has been previously authorized by or pursuant to this agreement; provided, however, that nothing in this paragraph shall be deemed to prevent Unit Operator from making an expenditure in excess of said amount if such expenditure becomes necessary because of a sudden emergency which may otherwise cause loss of life or extensive damage to property. In the event of such emergency expenditure, Unit Operator shall, within fifteen (15) days after making such expenditure, give written notice to the other parties.

(b) Make any arrangement for the use of facilities owned by the Working Interest Owners in the operation and development outside the unit area or determine the amount of any charges therefor unless otherwise provided for in this agreement or in the Unit Agreement.

(c) Dispose of any major items of surplus material or equipment having original cost of One Thousand Dollars ($1,000.00) or more, other than junk. Any such item or items of less cost may be disposed of without such consent.

(d) Submit to the Supervisor, Commissioner or Commission any plan for further development of the unit area or any proposed expansion of the unit area.

(e) Abandon any well which is producing unitized substances. Unit Operator shall not incur any costs or expenses for any single project costing in excess of Five Hundred Thousand Dollars ($500,000.00) without first obtaining the approval of the owners of eighty per cent (80%) of the working interests committed to the unit.

8. Drilling of Additional Wells

(a) Obligation Wells and Wells Mutually Agreed Upon

In addition to the required test wells, all other wells which Unit Operator is required to drill under the terms of the Unit Agreement or to comply with valid orders of governmental authorities having jurisdiction in the premises shall be drilled by Unit Operator for the account of the Working Interest Owners owning interests in the affected unit area, participating area or drilling block, as the case may be, as hereinabove provided. Unit Operator will also drill appropriate development wells within participating areas in accord with plans of development adopted by a majority vote of affected Working Interest Owners in accord with Section 7 above. Unit Operator will drill wells to the Mesaverde or any shallower formations at regular well locations outside of the applicable participating area upon request of the Working Interest Owner or owners owning one hundred per cent (100%) of the working interest within the drilling block upon which the well is to be located. Such wells shall be drilled in order of their request and approval by applicable governmental authorities.

(b) Other Wells

Unit Operator will not drill any well without the mutual consent of all the parties hereto other than as provided in Subsection (a) of this Section 8, except as hereinafter provided. Any Working Interest Owner owning a part of the working interests in a drilling block desiring that a well be drilled thereon to the Mesaverde or any shallower formation outside of the participating area established hereunder for such formation, or any Working Interest Owner owning working interests in acreage constituting a spacing unit for wells drilled to any formation below the Mesaverde desiring that a well be drilled thereon to such deeper formation, shall so notify Unit Operator, specifying the proposed location, objective depth and estimated cost of such well. Upon receipt of such notice, the Unit Operator shall advise those other Working Interest Owners parties hereto who, under the provisions of this agreement, would be required to share the cost and risk of the proposed well. Each such party shall, by responsive notice given to the Unit Operator within thirty (30) days of receipt of the aforesaid notice, elect as to whether such party desires to join in the drilling of such well. Failure to respond within said thirty (30) days shall be deemed an election not to join in the drilling of the proposed well. If all of said parties elect to join, the well shall be drilled for the account of all such parties in accord with the preceding provisions of this agreement. If less than all

of such parties elect to join in the drilling of such well, Unit Operator shall, upon obtaining required governmental approvals, proceed with due diligence to drill such well at the sole cost and risk of the party or parties electing to share in the costs thereof, hereinafter called the "drilling parties". In the event any such well is a dry hole (and is not taken over for plug back or deepening), it shall be plugged and abandoned at the sole cost of the drilling parties. In the event such well is a producer, it shall be tested, completed and equipped to produce by the Unit Operator at the sole cost of the drilling parties, and such drilling parties each in proportion to its contribution to the cost of drilling, testing, completing and equipping the well shall be entitled to receive the proceeds of production from the well or, if it is capable of producting in paying quantities, shall be entitled to receive the proceeds of production allocable to the interests admitted to the participating area on account of such well, after deducting therefrom all royalties, overriding royalties, production payments and one hundred per cent (100%) of the operating expenses attributable thereto, until said drilling parties shall have received therefrom one hundred fifty per cent (150%) of the costs of drilling, testing, completing and equipping said well to produce. For the purposes of this section, where a party takes in kind the proceeds of production from such a well shall be computed upon the same price basis as that employed for payment of royalties to the United States on comparable production from the unit area. When the drilling parties shall have been reimbursed for one hundred fifty per cent (150%) of said costs as hereinabove provided, proceeds from the well shall thereafter be shared by the Working Interest Owners within the participating area in the manner stipulated in Section 3 above. Any amounts which may be realized from sale or disposition of the well or equipment thereon, or required in connection with the drilling, testing, completing, equipping and operating thereof, shall be paid to the drilling parties and credited against the total unreturned portion of said one hundred fifty per cent (150%), with the balance thereof, if any, to be divided as provided in Section 3 above among the parties owning the well. Locations of all wells drilled under this provisions must be in accord with the spacing pattern adopted by the Unit Operator for the formation to which the well is projected.

9. Option to Take Over Wells.

If any well drilled under this agreement is a dry hole and the party or parties owning the well are ready to abandon it but the well can be plugged back or deepened to a different formation, Unit Operator shall so notify the Working Interest

Owners in the affected unit area, participating area or drilling block, as the case may be, and such parties shall have the right to take over said well and cause the Unit Operator to plug back or deepen it, as the case may be, and to complete it for the account of the parties owning working interests in the unit area, participating area or drilling block, as the case may be, upon effecting an investment adjustment so as to reimburse the party or parties who shall have borne the cost of drilling said well for either their cost of drilling to the depth at which the well is taken over (computed in accordance with the Accounting Procedure attached hereto) or for the average cost of drilling from the surface to the formation in which the well is to be completed, whichever is the lesser amount. Working Interest Owners so notified hereunder shall respond as provided in Section 7. If one, but less than all, of the affected working interest parties elects to take the well over, then Unit Operator shall take it over and conduct the specified operation for the account of the electing party or parties, and such party or parties shall be entitled to recover one hundred fifty per cent (150%) of their costs in acquiring, deepening or plugging back, testing and completing the well in the same manner as provided in Section 8 (b) above; provided, however, that where fifty per cent (50%) of the affected Working Interest Owners elect to take the well over for use in satisfying the obligation to drill a test well hereunder, the well shall be drilled for the account of all of the affected Working Interest Owners. In the event any one well is completed as a paying producer in more than one formation, the Working Interest Owners of the respective participating areas established for such formations shall arrange for appropriate allocation of investment and operating costs of such well by separate agreement.

10. Charges for Drilling Operations

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

11. Access to Operations and Information

Representatives of each party hereto shall have free access to the entire unit area at all reasonable times to inspect and observe operations of every kind

and character thereon. Each party hereto shall have access at all reasonable times to any and all information pertaining to wells drilled, production secured, and to the books, records and vouchers relating to the operation of the unit area. Unit Operator shall, upon request, furnish to the other parties hereto daily drilling reports, true and complete copies of well logs and other data relating to wells drilled, and shall also, upon request, make available samples and cuttings from any and all wells drilled on the unit area.

12. Disposition of Production

Each of the parties hereto shall take in kind or separately dispose of its proportionate share of the unitized substances produced hereunder, exclusive of production which may be used in development and producing operations of the unit area and in preparing and treating oil for marketing purposes, and production unavoidably lost. In the event any party hereto shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the unitized substances, Unit Operator shall have the right for the time being and subject to revocation at will by the party owning same to purchase such unitized substances or to sell the same to others at not less than the market price prevailing in the area. Each party hereto shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of unitized substances produced, saved and sold from the unit area, and on all purchases or sales each party shall execute any division order or contract of sale pertaining to its interest. Any extra expenditure incurred by reason of the taking in kind or separate disposition by any party hereto of its proportionate share of the production shall be borne by such party.

13. Pipe and Other Tubular Goods

Notwithstanding any limitations of the Accounting Procedure, Exhibit A, during such times as tubular goods and other equipment are not available at the nearest customary supply point Unit Operator shall be permitted to charge the joint account of parties responsible hereunder for all tubular good and other equipment

transferred from Unit Operator's warehouse or other stocks to the unit area for use on a particular participating area or drilling block, as the case may be, with such costs and expenses as may have been incurred in purchasing, shopping, and moving the required tubular goods and other equipment to the unit area; provided, however, that each affected Working Interest Owner shall be given the opportunity, in lieu of bearing its proportionate part of such costs, of furnishing in kind or in tonnage, as the parties may agree, its share of such tubular goods and other equipment required.

14. Advances

Each of the parties hereto shall promptly pay and discharge its proportionate part of all cost and expense on the basis set forth in the Accounting Procedure attached as Exhibit A. Unit Operator, at its election, may require the parties hereto to advance their respective proportion of development and operating costs according to the following conditions: On or before the first day of each calendar month, Unit Operator shall submit an itemized estimate of such costs for the succeeding calendar month to each of the parties hereto with a request for the payment of such party's proportionate part thereof. Within ten (10) days thereafter each of such parties shall pay, or secure the payment in a manner satisfactory to Unit Operator, such party's proportionate share of such estimate. Unit Operator shall credit each Working Interest Owner with the advances so made. Should any party fail to pay or secure the payment of such party's proportionate part of such estimate, the same shall bear interest at the rate of six per cent (6%) per annum until paid. Adjustments between estimates and actual costs shall be made by Unit Operator at the close of each calendar month and the accounts of the parties adjusted accordingly.

15. Operator's Lien

Unit Operator shall have a lien on the interest of each of the parties in the unit area, unitized substances produced therefrom, the proceeds thereof and the material and equipment thereon, to secure the payment of such party's proportionate part of the cost and expense of developing and operating the unitized lands and to secure the payment by any such party of such party's proportionate part of any advance estimate of such cost and expense. Unit Operator shall protect such property from all other liens arising from operations hereunder.

16. Insurance

Unit Operator, during the term hereof, shall purchase or provide protection comparable to that afforded under standard form policies of insurance for workmen's

compensation with statutory limits, employer's liability insurance with a limit of $25,000.00, and general public liability insurance with limits of $30,000/$60,000. Unit Operator shall charge to the joint account an amount equal to the premium applicable to the protection so provided. All losses not covered by standard form policies of insurance for hazards set out above shall be borne by the parties hereto as their interests appear at the time of any loss.

17. Surrender

No party hereto shall surrender any of its working interests insofar as they relate to lands located within a participating area. However, should any party hereto at any time desire to surrender any of the oil and gas leases or operating agreements subject hereto, or any interest therein, insofar as they cover lands located outside such a participating area but within the unit area, it shall notify all other parties hereto in writing. Within thirty (30) days following receipt of such notice by the other parties hereto, the party desiring to surrender such working interests insofar as they affect such land may proceed to surrender the same if such right is reserved in the leases or operating agreement, unless any other party or parties hereto have, within said thirty (30) day period, given written notice to the party desiring to surrender that they desire an assignment of said working interests insofar as they cover said land. In such event the party desiring to surrender shall assign, without express or implied warranty of title, and subject to existing covenants, contracts and reservations, all its interest in such working interests insofar as they cover such land and the wells, material and equipment located thereon, to the party or parties desiring an assignment. Thereupon such assigning party shall be relieved from all obligations thereafter accruing (but not theretofore accrued) hereunder with respect to the interest assigned. From and after the making of such assignment, the assigning party shall have no further interest in the property assigned but shall be entitled to receive from the assignees payment for its interest therein in an amount equal to the salvage value of any salvable material located on said land. If such assignment shall run in favor of more than one party hereto, the interest covered shall be shared by such parties in the proportions that the interest of each party assignee in the lands committed to the Unit Agreement bears to the total interest of all parties assignee in lands committed to the Unit Agreement.

18. Taxes

Unit Operator shall, for the joint account, render for ad valorem tax purposes the entire working interests in the unit area of all parties hereto and

all personal property used in connection with operations hereunder, or such part thereof as may at any time be subject to taxation. Unit Operator shall also pay all such ad valorem taxes, at the time and in the manner required by law, which may be assessed upon or against all or any portion of such working interests and personal property. Each party shall pay its proportionate part of the total taxes so paid and expenses incurred in connection with the rendering and payment thereof in accord with Accounting Procedure, Exhibit A. Nothing herein shall relieve any Working Interest Owner of the consequence of any loss of title occasioned by failure of the landowner to pay ad valorem taxes levied against the land to which its working interest relates.

19. Employees

The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees shall be determined by the Unit Operator. Such employees shall be the employees of Unit Operator.

20. Liabilities

The liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for its obligations as herein set out and shall be liable only for its proportionate share of the cost of developing and operating the unit area as determined by the provisions hereof.

21. Force Majeure

This agreement and the respective rights and obligations of the parties hereunder shall be subject to all valid and applicable State and Federal laws, rules, regulations and orders, and in the event this agreement, or any provision thereof, is or the operations contemplated thereby are found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect. Unit Operator shall not be liable for any loss of property or of time caused by strikes, riots, fires, tornadoes, floods, inability to obtain tubular goods or other required materials or services, or for any other cause beyond the reasonable control of Unit Operator in the exercise of due diligence.

22. Notices

All notices that are required or authorized to be given hereunder shall be given in writing by United States mail or Western Union telegram, postage or

charges prepaid, and addressed to the party to whom such notice is to be given at the address indicated for such party opposite its signature hereto. The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent responsive notice shall be deemed given when deposited in the United States post office or with the Western Union Telegraph Company with postage or charges prepaid.

23. Fair Employment Practices

Unit Operator shall not discriminate against any employee or applicant for employment because of race, creed, color or national origin, and an identical provision shall be incorporated in all subcontracts.

24. Unleased Interests

Should the owner of any unleased interest in lands lying within the unit area become a party to the Unit Agreement and this agreement, such unleased interest shall be treated, for all purposes of this agreement, as if there were an oil and gas lease covering such unleased interest on a form providing for the usual and customary one-eighth (1/8) royalty and containing the usual and customary "lesser interest clause". This agreement shall in no way affect the right of the owner of any such unleased interest to receive an amount or share of unitized substances equivalent to the royalty which would be payable or due under the terms of the Unit Agreement if such unleased interest were subject to such an oil and gas lease.

25. Effective Date and Term

This Unit Operating Agreement shall become effective as of the effective date of the Unit Agreement and shall remain in full force and effect during the life of such Unit Agreement. The terms hereof shall be considered as covenants running with the ownership of working interests committed hereto and shall be binding upon the heirs, personal representatives, successors and assigns of the parties hereto.

26. Execution by Counterparts

This agreement may be executed in counterparts with the same force and effect as if all parties executing any counterpart hereof had executed one original document. It shall be binding upon all parties executing any counterpart hereof whether or not signed by all parties listed below as owning working interests. Any party owning working interests within the unit area may execute this agreement at

any time prior to its effective date. Any such Working Interest Owner desiring to join subsequent to the effective date hereof shall be permitted to join only in accord with such terms and conditions as may then be agreeable to the Unit Operator.

EXECUTED as of the day and year first above written.

PHILLIPS PETROLEUM COMPANY

Attest:

Assistant Secretary

By
Vice President

Phillips Building
Bartlesville, Oklahoma

UNIT OPERATOR AND WORKING INTEREST OWNER

WORKING INTEREST OWNERS

STANOLIND OIL AND GAS COMPANY

Attest:

Assistant Secretary

By
Vice President

APPROVED

Fair Building
Fort Worth, Texas

EL PASO NATURAL GAS COMPANY

Attest:

Assistant Secretary

By
Vice President

Bassett Tower
El Paso, Texas

WOOD RIVER OIL & REFINING CO., INC.

Attest:

Assistant Secretary

By
Vice President

321 West Douglas
Wichita, Kansas

SKELLY OIL COMPANY

Attest:

Assistant Secretary

By
Vice President

Skelly Building
Tulsa 2, Oklahoma

SUNRAY OIL CORPORATION

Attest:

~~Assistant~~ Secretary

By
Vice President

Attorney

1st National Bank Bldg.
Tulsa, Oklahoma

GENERAL AMERICAN OIL COMPANY OF TEXAS

Attest:

W L Bruyns
Assistant Secretary

By Gordon Simpson
Vice President

Republic Bank Building
Dallas, Texas

THE TEXAS COMPANY

Attest:

_____
Assistant Secretary

By J H Markley Jr
[redacted]

P. O. Box 1720
Fort Worth, Texas

W. N. Sands 12/11/52

Date_____

Address:_____

_____

Date_____

Address:_____

_____

Date_____

Address:_____

_____

Date_____

Address:_____

_____

Date_____

Address:_____

_____

Date_____

Address:_____

_____

Attached to and made a part of [illegible] San Juan unit 32-8 San Juan County, New Mexico

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. **Definitions**
The term "joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.
The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account.
The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. **Statements and Billings**
Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Sub-Paragraph ..... below:
A. Statement in detail of all charges and credits to the joint account.
B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
C. Statements, as follows:
(1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;
(2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
(3) Statement of any other receipts and credits.

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

4. **Audits**
Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. DEVELOPMENT AND OPERATING CHARGES

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

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

2. **Labor, Transportation, and Services**
Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under Part (B) of this paragraph shall not exceed five per cent (5%) of the total of such labor charged to the joint account.

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

4. **Moving Material to Joint Property**
Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other properties of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

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5. **Moving Surplus Material from Joint Property**
Moving surplus material from the joint property to outside vendees, if sold f.o.b. destination, or minor returns to Operator's warehouse or other storage point. No charge shall be made to the joint account for moving major surplus material to Operator's warehouse or other storage point for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator; and no charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. **Use of Operator's Equipment and Facilities**
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 4, of Section III, "Basis of Charges to Joint Account."

7. **Damages and Losses**
Damages or losses incurred by fire, flood, storm, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damage or losses incurred by fire, storm, flood, or other natural or accidental causes as soon as practicable after report of the same has been received by Operator.

8. **Litigation, Judgments, and Claims**
All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the joint account or the subject matter of this agreement; actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.
   A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto, and a charge commensurate with the services rendered may be made against the joint account, but no such charge shall be made until approved by the legal department of or attorneys for the respective parties hereto.
   B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

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

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

11. **District and Camp Expense**
A proportionate share of the salaries and expenses of Operator's District Superintendent and other general district or field employees serving the joint property, whose time is not allocated direct to the joint property, and a proportionate share of maintaining and operating a district office and all necessary camps, including housing facilities for employees if necessary, in conducting the operations on the joint property and other leases owned and operated by Operator in the same locality. The expense of, less any revenue from, these facilities shall include depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all leases served on some equitable basis consistent with Operator's accounting practice.

12. **Overhead**
Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of Operator, including the division superintendent, the entire staff and expenses of the division office located at _____, and any portion of the office expense of the principal business office located at _____, but which are not in lieu of district or field office expenses incurred in operating any such properties, or any other expenses of Operator incurred in the development and operation of said properties; and Operator shall have the right to assess against the joint property covered hereby the following overhead charges:
   A. $ 100.00 per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
   B. $ 75.00 per well per month for the first five (5) producing wells.
   C. $ 35.00 per well per month for the second five (5) producing wells.
   D. $ 15.00 per well per month for all producing wells over ten (10).
   E. In connection with overhead charges, the status of wells shall be as follows:
      (1) In-put or key wells shall be included in overhead schedule the same as producing oil wells.
      (2) [illegible]
      (3) Wells permanently shut down but on which plugging operations are deferred, shall be dropped from overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
      (4) Wells being plugged back or drilled deeper shall be included in overhead schedule the same as drilling wells.
      (5) Various wells may be shut down temporarily and later replaced on production. If and when a well is shut down (other than for proration) and not produced or worked upon for a period of a full calendar month, it shall not be included in the overhead schedule for such month.
      (6) Salt water disposal wells shall not be included in overhead schedule.

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F. **The above overhead schedule on producing wells shall be applied to individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project in the interest of economic development, the schedule shall be applied to the total number of wells, irrespective of individual leases.**

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

13. **Warehouse Handling Charges**

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14. **Other Expenditures**
Any other expenditure incurred by Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

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

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

A. New Material (Condition "A")
   (1) New material transferred from Operator's warehouse or other properties shall be priced f. o. b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, rigs, pumps, sucker rods, boilers, and engines. Tubular goods (2" and over), shall be priced on carload basis effective at date of transfer and f. o. b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
   (2) Other material shall be priced on basis of a reputable supply company's Preferential Price List effective at date of transfer and f. o. b. the store or railway receiving point nearest the joint account operation where such material is available.
   (3) Cash discount shall not be allowed.

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

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

4. **Operator's Exclusively Owned Facilities**
The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

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

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

C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located.

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

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

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. Derricks, tanks, buildings, and other major items shall not be removed by Operator from the joint property without the approval of Non-Operator. Operator shall not sell major items of material to an outside party without giving Non-Operator an opportunity either to purchase same at the price offered or to take Non-Operator's share in kind.

1. **Material Purchased by Operator**
Material purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the material is removed from the joint property.

2. **Material Purchased by Non-Operator**
Material purchased by Non-Operator shall be invoiced by Operator and paid for by Non-Operator to Operator immediately following receipt of invoice. The Operator shall pass credit to the joint account and include the same in the monthly statement of operations.

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

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

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

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

2. **New Material**
New material (Condition "A"), being new material procured for the joint account but never used thereon, at 100% of current new price.

3. **Good Used Material**
Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning,
   A. At 75% of current new price if material was charged to joint account as new, or
   B. At 75% of current new price less depreciation consistent with their usage on and service to the joint property, if material was originally charged to the joint property as secondhand at 75% of new price.

4. **Other Used Material**
Used Material (Condition "C"), being used material which
   A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
   B. Is serviceable for original function but substantially not suitable for reconditioning,
at 50% of current new price.

5. **Bad-Order Material**
Used material (Condition "D"), being material which cannot be classified as Condition "B" or Condition "C", shall be priced at a value commensurate with its use.

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

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

VI. INVENTORIES

1. **Periodic Inventories**
Periodic inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

2. **Notice**
Notice of intention to take inventory shall be given by Operator at least ten days before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.

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

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

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

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

STATE OF_____)
) SS.
COUNTY OF_____)

On this _____day of _____, 19_____, before me personally appeared _____, to me known to be the person __described in and who executed the foregoing instrument, and acknowledged that _____executed the same as _____ free act and deed.

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

_____
Notary Public

My commission expires:

_____

STATE OF_____)
) SS.
COUNTY OF_____)

On this _____day of _____, 19_____, before me personally appeared _____, to me known to be the person ___described in and who executed the foregoing instrument, and acknowledged that ____executed the same as _____free act and deed.

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

_____
Notary Public

My commission expires:

_____

STATE OF_____)
) SS.
COUNTY OF_____)

On this _____day of_____, 19____, before me personally appeared _____, to me known to be the person___described in and who executed the foregoing instrument, and acknowledged that _____executed the same as _____free act and deed.

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

_____
Notary Public

My commission expires:

_____

STATE OF Oklahoma)
) SS
COUNTY OF Washington)

On this 4th day of November, 1952, before me personally appeared C. O. Stark, to me personally known, who, being by me duly sworn did say that he is the Vice President of Phillips Petroleum Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said C. O. Stark acknowledged said instrument to be the free act and deed of said corporation.

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

Martha Rinehart
Notary Public

My Commission Expires August 1, 1955

STATE OF Oklahoma)
) SS
COUNTY OF Tulsa)

On this 14 day of November, 1952, before me personally appeared H. O. Harder, to me personally known, who, being by me duly sworn did say that he is the Vice President of Sunray Oil Corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said H. O. Harder acknowledged said instrument to be the free act and deed of said corporation.

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

Mildred M. Bradshaw
Notary Public

My Commission Expires 9-30-54

STATE OF Oklahoma)
)
COUNTY OF Tulsa)

On this 14 day of November, 1952, before me personally appeared A. L. CASHMAN, to me personally known, who, being by me duly sworn did say that he is the Vice-President of Kelly Oil Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said A. L. CASHMAN acknowledged said instrument to be the free act and deed of said corporation.

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

Robt. D. Buchanan
Notary Public

My Commission Expires Feb. 8, 1955

STATE OF TEXAS)
) SS
COUNTY OF Dallas)

On this 18th day of November, 1952, before me personally appeared GORDON SIMPSON, to me personally known, who, being by me duly sworn did say that he is the Vice President of General American Oil Company of Texas, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said GORDON SIMPSON acknowledged said instrument to be the free act and deed of said corporation.

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

Catherine R. Sullivan
Notary Public

My Commission Expires June 1, 1953

My Commission Expires

CATHERINE R. SULLIVAN

STATE OF TEXAS)
) SS
COUNTY OF El Paso)

On this 17th day of November, 1952, before me personally appeared C L Perkins, to me personally known, who, being by me duly sworn did say that he is the Vice President of El Paso Natural Gas Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said C L Perkins acknowledged said instrument to be the free act and deed of said corporation.

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

Louise M. Cress
Notary Public

My Commission Expires

LOUISE M. CRESS
Notary Public, In and for El Paso County, Texas
My commission expires June 1, 1953

STATE OF Oklahoma)
)
COUNTY OF Tulsa)

On this 19th day of November, 1952, before me personally appeared J. E. Rouse, to me personally known, who, being by me duly sworn did say that he is the **Vice** President of STANOLIND OIL AND GAS COMPANY, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. E. Rouse acknowledged said instrument to be the free act and deed of said corporation.

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

Maxine McAdams
Notary Public

My Commission Expires

My Commission Expires October 4, 1955

STATE OF _____)
) SS
COUNTY OF_____)

On this _____day of _____, 19____, before me personally appeared _____, to me personally known, who, being by me duly sworn did say that he is the ____President of_____ _____, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said_____acknowledged said instrument to be the free act and deed of said corporation.

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

_____
Notary Public

My Commission Expires_____

STATE OF _____)
) SS
COUNTY OF_____)

On this _____day of _____, 19_____, before me personally appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____President of _____ _____, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said_____acknowledged said instrument to be the free act and deed of said corporation.

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

_____
Notary Public

My Commission Expires_____

STATE OF _____)

STATE OF TEXAS)
)
COUNTY OF TARRANT)

On this 11th day of December, 1952, before me personally appeared _____, to me personally known, who, being by me duly sworn did say that he is the attorney-in-fact of The Texas Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereto set my hand and affixed my offfeial seal on this the day and year first above written.

Irma P. Willis
Notary Public in and for Tarrant County, Texas.

My Commission Expires: 6-1-53

PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA

LAND AND GEOLOGICAL DEPARTMENT
C. O. STARK, VICE PRESIDENT
D. E. LOUNSBERY, CHIEF GEOLOGIST
D. C. HEMSELL, MGR. LAND DIVISION
W. B. WEEKS, MGR. GEOLOGICAL SECTION
A. J. HINTZE, MGR. EXPLORATION SECTION

316½ Dewey Avenue
January 22, 1953

Case 446

Re: San Juan Unit 32-8
San Juan County,
New Mexico
Unit No. 14-08-001-446

The Oil Conservation Commission
of the State of New Mexico
Santa Fe, New Mexico

Gentlemen:

The above numbered Federal unit was approved by the Acting Director, United States Geological Survey on January 13, 1953, and we are enclosing for your files a fully executed copy of the Unit Agreement and also a fully executed copy of the Unit Operating Agreement.

We sincerely appreciate your cooperation in connection with obtaining approval of this and other units by the State of New Mexico.

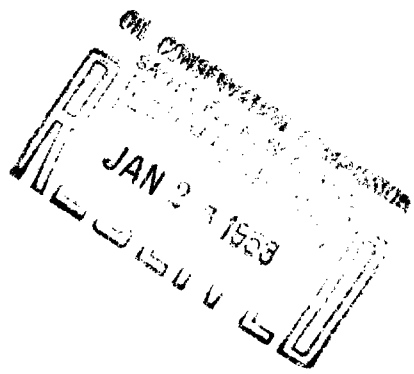
Yours very truly,

PHILLIPS PETROLEUM COMPANY

By Owen I. Jones

OIJ:ndb

Registered - RR
encl.
cc: G. E. Benskin



PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA

LAND AND GEOLOGICAL DEPARTMENT
C. O. STARK, VICE PRESIDENT
D. E. LOUNSBERY, CHIEF GEOLOGIST
D. C. HEMSELL, MGR. LAND DIVISION
W. B. WEEKS, MGR. GEOLOGICAL SECTION
A. J. HINTZE, MGR. EXPLORATION SECTION

316½ Dewey Avenue
January 19, 1953

Re: San Juan Unit 32-8
San Juan County,
New Mexico

446

The Oil Conservation Commission
of the State of New Mexico
Santa Fe, New Mexico

Gentlemen:

Attached is a copy of a letter from H. J. Duncan dated January 14, 1953, advising us of the approval of San Juan 32-8 Unit. You will be furnished within a few days with a fully executed copy of the Unit Agreement and Unit Operating Agreement.

Yours very truly,

PHILLIPS PETROLEUM COMPANY

By _____
Owen I. Jones

OIJ:ndb

Enclosure
cc: G. E. Benskin

IN REPLY REFER TO:

UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY
WASHINGTON 25, D. C.

JAN 14 1953

Case 446

Phillips Petroleum Company
Suite 7, 316½ So. Dewey Ave.
Bartlesville, Oklahoma

Gentlemen:

On January 13, 1953, Acting Director of the Geological Survey, Thomas B. Nolan, approved the San Juan 32-[illegible] unit agreement, San Juan County, New Mexico, filed by your company as unit operator. This agreement has been designated No. 14-08-001-446, and is effective as of the date of approval.

Enclosed are three copies of the approved unit agreement for your records. It is requested that you furnish the State of New Mexico or any other interested principal with whatever evidence of this approval is deemed appropriate.

Power of attorney for J. H. Markley, Jr., to sign for The Texas Company is needed and should be furnished promptly.

Very truly yours,

For the Director

Enclosures 3

ILLEGIBLE

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE SAN JUAN 32-8 UNIT AREA
COUNTY OF SAN JUAN
STATE OF NEW MEXICO

[redacted] No. 14-08-001-446

This agreement entered into as of the 21ST day of OCTOBER, 1952, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH: 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 Act of February 25, 1920, 41 Stat. 437, as amended by the Act of August 8, 1946, 60 Stat. 950, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof, for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

Whereas the Commissioner of Public Lands of the State of New Mexico is authorized by an act of the Legislature (Chapter 88, Laws 1943, New Mexico Statutes 1941 Annotated, Sections 8-1138 to 8-1141) to consent to and approve the development or operation of lands of the State of New Mexico under this agreement; and

Whereas the Oil Conservation Commission of the State of New Mexico is authorized by an act of the Legislature (Chapter 72, Laws 1935, New Mexico Statutes 1941 Annotated, Sections 69-201 et seq.) to approve this agreement and the conservation provisions hereof; and

Whereas the parties hereto hold sufficient interests in the San Juan 32-8 Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

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

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

1. Enabling act and regulations.

The Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal 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 New Mexico are hereby accepted and made a part of this agreement.

2. Unit area.

The following-described land is hereby designated and recognized as constituting the unit area:

New Mexico Principal Meridian:

Township 31 North, Range 8 West

Sections 1,2,3,4: All
Sections 9,10,11,12,13,14,15,16: All
Sections 21,22,23,24: All

Township 32 North, Range 8 West

Section 7: Lots 1,2,3,4,5,6, $E\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}$
Section 8: Lots 1,2,3, and 4, $S\frac{1}{2}$
Section 9: Lots 1,2,3, and 4, $S\frac{1}{2}$
Section 10: Lots 1,2,3, and 4, $S\frac{1}{2}$
Section 11: Lots 1,2,3, and 4, $S\frac{1}{2}$
Section 12: Lots 1,2,3, and 4, $S\frac{1}{2}$
Sections 13, 14,15,16,17: All
Section 18: Lots 1,2,3, and 4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$
Section 19: Lots 1,2,3, and 4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$
Sections 20,21,22,23,24,25,26,27,28,29: All
Section 30: Lots 1,2,3, and 4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$
Section 31: Lots 1,2,3, and 4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$
Sections 32,33,34,35,36: All

Containing 27,500.28 acres, more or less

Exhibit A attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit B attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits A and B shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner," and not less than six copies of the revised exhibits shall be filed with the Supervisor and copies thereof shall be filed with the Commissioner and the New Mexico Oil Conservation Commission, hereinafter referred to as the "Commission".

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

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", or on demand of the Commissioner and/or the Commission, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reason therefor, and the proposed effective date thereof.

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

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, Commissioner and the Commission evidence of mailing of the notice of expansion or contraction and

a copy of any objections thereto which have been filed with the Unit Operator.

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

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

3. Unitized substances.

All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances."

4. Unit Operator.

Phillips Petroleum Company, a Delaware Corporation with offices at Bartlesville, Oklahoma, is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of 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 an interest is owned by it.

5. Resignation or removal of unit operator.

Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Director, Commissioner and the Commission, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and by the Commission as to other 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.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established hereunder is in existence, but provided, however, until a successor unit operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of unit operator, and shall not later than 30 days before such resignation becomes effective appoint a common agent to represent them in any action to be taken hereunder.

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

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

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

6. Successor unit operator.

Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interest according to their respective acreage interests in all unitized land, shall by majority vote select

a successor Unit Operator: Provided, That, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective unit (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Director and Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and Commissioner at their election may declare this unit agreement terminated.

7. Accounting Provisions and unit operating agreement.

Costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements, entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between the unit agreement and the unit operating agreement, this unit agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section shall be filed with the Supervisor.

8. Rights and obligations of Unit Operator.

Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties

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

9. Drilling to discovery.

Within 60 days after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location selected by it and approved by the Supervisor if on Federal land or the Commission if on State or Patented land unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue drilling diligently until the Mesaverde formation has been tested or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if on Federal land or the Commissioner if on State land or the Commission if on patented land that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 6,000 feet. Within 30 days following completion of the aforesaid initial test well upon the unit area, Unit Operator shall commence the drilling of an additional well and shall thereafter continue drilling operations on the unit area, with not more than 30 days of elapsed time between the completion of one well and the commencement of the next succeeding well, until an aggregate of six wells commenced after September 25, 1952, (whether commenced before or after the effective date of this agreement), shall have been drilled thereon to said depth at locations selected by Unit Operator and approved by the Supervisor if on Federal land or the Commissioner if on State land or the Commission if on Patented land so spaced over the unit area as to determine so far as may be practicable the productive acreage and gas reserves in the Mesaverde and shallower formations underlying said unit area.

In the event none of the wells drilled pursuant to the above specified drilling program results in obtaining production in paying quantities, then upon completion of the above-outlined drilling program until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 6 months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if on Federal land, or the Commissioner if on State land, or the Commission if on privately owned land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becomming effective in order to comply with the requirements of this section. The Director and Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to comply with the drilling provisions of this section, the Director, Commissioner and the Commission may, after reasonable notice to the Unit Operator, and each working interest owner, lessee, and lessor at their last known addresses, declare this unit agreement terminated.

10. Plan of further development and operation.

Within 6 months after completion of a well capable of producing unitized substances in paying quantities or within 6 months after completion of the drilling program outlined in Section 9 above, whichever is the later date, the Unit Operator shall submit for the approval of the Supervisor, the Commissioner and the Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Commissioner and the Commission, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor, the Commissioner

and the Commission, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor, the Commissioner and the Commission may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor, the Commissioner and the Commission. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance in paying quantities and the drilling program outlined in Section 9 above, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor, the Commissioner and the Commission, shall be drilled except in accordance with a plan of development approved as herein provided.

11. Participation after discovery.

(a) MESAVERDE AND SHALLOWER FORMATIONS. That portion of the unit area lying above the base of the Mesaverde formation is hereby divided into Drilling Blocks containing 320 acres each, more or less, which Drilling Blocks shall constitute one-half sections, by government survey, the sections being divided by a line running north and south in such manner that each Drilling Block shall be either the East Half (E/2) or the West Half (W/2) of each

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given section, provided, however, that in any instances of irregular surveys that portion of a section which most nearly constitutes either the East Half (E/2) or the West Half (W/2) shall constitute a Drilling Block even though its acreage may be irregular, and provided further that any irregular strips or small tracts shall attach to the adjacent Drilling Blocks to which they most logically attach within the limitations for Drilling Blocks as herein set forth, and provided further that in the event any portion of the area subject to this agreement is not surveyed, Unit Operator shall project the survey from the nearest established government survey points for the purposes of this agreement.

Upon completion of a well capable of producing unitized substances from the Mesaverde or shallower formations or as soon thereafter as required by the Supervisor or the Commissioner, the Unit Operator shall determine whether said well is capable of producing unitized substances in paying quantities and shall advise the Supervisor, the Commissioner and the Commission of its conclusion in that regard, giving the data upon which its conclusion is based and identifying the Drilling Block upon which said well is located. Protests against said conclusion may be filed with the Director, the Commissioner and the Commission within 15 days thereafter but unless the Director, the Commissioner or the Commission shall, within 30 days after the filing of the original statement of conclusion by Unit Operator, disapprove of such conclusion, the decision of Unit Operator shall thereafter be binding upon the parties hereto. If any such well is determined to be capable of producing unitized substances in paying quantities, all of the land in the Drilling Block shall constitute the participating area for the formation from which the well is producing effective as of the date of first production. Unit Operator shall prepare a schedule setting forth the percentage of unitized substances to be allocated, as herein provided, to each unitized tract in the participating area so established, and upon approval thereof by the Director, the Commission and Commissioner said schedule shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof producing

as a single pool or zone, and all of the provisions of this section of this agreement shall be considered as applicable separately for each such participating area. It is hereby agreed for the purposes of this agreement that all wells completed for production in the Fruitland formation shall be regarded as producing from a single zone or pool and all wells completed for production in the Pictured Cliffs formation shall be regarded as producing from a single zone or pool, and all wells completed for porduction in the Mesaverde group shall be regarded as producing from a single zone or pool. Additional Drilling Blocks, subject to any limitations elsewhere set out in this agreement, shall be admitted to the participating area on the first day of the month following the month in which it has been established that a well capable of production of unitized substances in paying quantities has been drilled on any such Drilling Block, and the percentage of allocation shall be revised accordingly, in which event all of the production prior to the effective date of admission of such Drilling Block to the participating area shall be credited solely to the account of that particular block. For the purposes hereof, it shall be deemed that the capability of a well to produce unitized substances in paying quantities has been established when so determined by the Unit Operator and when notice of such determination shall have been delivered to the Supervisor, the Commissioner and the Commission, which notice includes the data upon which the determination is based and identifies the Drilling Block upon which the well is located, subject to the right of any interested party to protest in writing against said determination to the Unit Operator, the Director, the Commissioner and the Commission within 15 days thereafter, however, in any event, such determination shall become effective within 30 days from the date thereof unless disapproved within said 30-day period by the Director, Commissioner, or Commission. In the event such determination is not upheld and changed conditions subsequently warrant, a new determination based on new showings and a new effective date may be submitted and processed in the same manner as aforesaid. No land shall be excluded from a participating area on account of depletion of the unitized substances.

In the event that any Drilling Block is admitted to a participating area as hereinabove provided when it lies directly north, south, east, or west of any Drilling Block already included in said participating area, and where there is one, but only one intervening Drilling Block on which no well has then

been drilled, said intervening Drilling Block shall also be admitted to said participating area at the same time, in the same manner and subject to the same conditions as the Drilling Block which is then admitted to such participating area by reason of the completion of a well thereon capable of producing unitized substances in paying quantities. In such event, the drilling of a well on such undrilled intervening Drilling Block shall be commenced, within one year from the effective date of said Drilling Block's inclusion in the participating area, unless said time be extended by the Director, Commissioner, and Commission, and shall be continued with due diligence to the depth necessary to test the horizon from which production is secured in said participating area.

If the initial well on any Drilling Block is not capable of production in paying quantities and at a later date a well is drilled on such Drilling Block which is capable of production of unitized substances in paying quantities, then that portion of the Drilling Block considered to be capable of production in paying quantities by reasonable geologic inference shall be admitted to the participating area upon recommendation of the Unit Operator and approval of the Director, the Commissioner and the Commission. If geologic inference is not applicable, the forty-acre tract by government survey, existing or projected, on which the producible well is drilled and all other untested forty-acre tracts or lots approximating 40 acres lying within the Drilling Block shall be admitted to the participating area.

If any Drilling Block, or portion thereof, on which a well has been drilled is not included in a participating area, conformably with the provisions of this agreement, and thereafter should become capable of production in paying quantities by reason of repressuring or other methods of secondary recovery, such drilling block or portion thereof shall be admitted to the applicable participating area on recommendation of the Unit Operator and approval thereof as provided for the inclusion of lands in a participating area in the preceding paragraph hereof.

Regardless of any revision of the participating area, and except as herein elsewhere specifically provided, there shall be no retroactive adjustment for production obtained prior to the effective date of any such revision of the participating area.

Whenever it is determined, in the manner provided in this agreement, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the Drilling Block on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among royalty interest owners, be allocated to the Drilling Block on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

(b) FROM FORMATIONS BELOW THE MESAVERDE. Upon completion of a well capable of producing unitized substances from formations lying below the base of the Mesaverde in paying quantities, or as soon thereafter as required by the Supervisor and Commissioner, the Unit Operator shall submit for approval by the Director, the Commissioner, and the Commission, a schedule based on subdivisions of the public land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director, the Commissioner, and the Commission to constitute a participating area, effective as of the date of first production. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective.

A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director, the Commissioner, and the Commission. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities and the percentage of allocation shall also be

revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, unless a more appropriate effective date is specified in the schedule. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this subsection (b) that a particiapting area shall represent the area known or reasonably estimated to be productive in paying quantities; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Director, the Commissioner, and the Commission as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the United States and the State of New Mexico, which shall be determined by the Supervisor and the Commissioner and the amount thereof deposited as directed by the Supervisor and the Commissioner, respectively, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State Royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor, as to wells on Federal land, the Commissioner as to wells on State land, and the Commission as to patented land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. Allocation of production.

All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor and Commissioner, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

13. Development or operation of non-participating land or formations and drilling of wells not mutually agree upon.

Any party or parties hereto owning or controlling the working interests or a majority of the working interests in any unitized land having thereon a regular well location may, with the approval of the Supervisor as to Federal land, the Commissioner as to State land and the Commission as to privately owned land, and subject to the provisions of the Unit Operating Agreement at such

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party's sole risk, cost, and expense drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, or drill any well not mutually agreed to by all interested parties, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such well in like manner as other wells are drilled by the Unit Operator under this agreement.

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

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

14. Royalty Settlement

The United States and the State of New Mexico and all royalty owners who, under existing contracts, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws, and

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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.

If gas obtained from lands not subject to this agreement is introduced into any participating area of the lands being operated hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Supervisor and Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom: provided that such withdrawal shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by the Supervisor as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

15. Rental settlement.

Rental or minimum royalties due on leases committed hereto shall be paid by working interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental

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

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

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

16. Conservation.

Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

17. Drainage.

The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, including wells on adjacent unit areas, or pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the Supervisor for Federal lands or as approved by the Commissioner for State lands.

18. Leases and contracts conformed and extended.

The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling development, or operation for oil or gas of lands committed to this agreement are hereby expressly modified and amended, o the extent necessary to make the same conform to the provisions

hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary as to Federal leases and the Commissioner as to State leases shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

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

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such land remains committed hereto, provided unitized substances are discovered in paying quantities within the unit area prior to the expiration date of the primary term of such lease.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) Any lease having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts.

(h) Parties hereto, each as to its interest in the unit area, hereby grant to Unit Operator necessary surface rights to cover use of any portion of the surface of the unit area reasonably necessary for operations hereunder.

19. 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, royalty or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified

copy of the instrument of transfer.

20. Effective date and term.

This agreement shall become effective upon approval by the Secretary or his duly authorized representative and shall terminate on October 1, 1957, unless (a) such date of expiration is extended by the Director and Commissioner, or (b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Director and Commissioner, or (c) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in paying quantities, i.e., in this particular instance in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or (d) it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time not less than 75 per centum, on an acreage basis, of the owners of working interests signatory hereto, with the approval of the Director and Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. Rate of prospecting, development, and production.

All production and the disposal thereof shall be in conformity with allocations, allotments 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 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 15 days from notice.

22. Automatic Elimination.

Notwithstanding any other provisions of this agreement, any lease, no portion of which is included within a participating area within 7 years after the first sale of unitized substances from any lands subject to this agreement, shall be automatically eliminated from this agreement and said lease, and the lands covered thereby shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 7 year period drilling operations are in progress on such lease, in which event the lands covered by such lease shall remain subject hereto and within said unit area for so long as such drilling operations are continued diligently and, so long thereafter as such lands or any portion thereof may be included in a participating area hereunder. Inasmuch as any elimination under this section is automatic, the Unit Operator shall, within 90 days after any such elimination hereunder, describe the area so eliminated, and promptly notify all parties in interest.

23. Conflict of Supervision

Neither the Unit Operator not 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 provision 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 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 thing 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.

24. Appearances.

Unit Operator shall, after notice to other parties affected, have the right to appear for or on behalf of any and all interest affected hereby before the Department of the Interior and the Commission and to appeal from orders issued under the regulations of said Department and/or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

25. Notices.

All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or 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 wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

27. Unavoidable delay.

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

The Unit Operator shall not discriminate against any employee or applicant for employment because of race, creed, color or national origin, and an identical provision shall be incorporated in all subcontracts.

29. Loss of title.

In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal land and State land or leases, no payments of funds due the United States or the State of New Mexico should be withheld, but such funds of the United States shall be deposited as directed by the Supervisor, and such funds of the State shall be deposited as directed by the Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned 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.

30. Non-Joinder and subsequent joinder.

If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the

working interest in that tract may withdraw said tract from this agreement by written notice to the Director, the Commissioner and the Unit Operator prior to the approval of this agreement by the Director. Any such tract not so withdrawn shall be considered as unitized, and any necessary adjustments of royalty occasioned by failure of the royalty and record owner to join will be for the account of the corresponding working interest owner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Prior to final approval hereof, joinder by any owner of a non-working interest must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. Except as may otherwise herein be provided subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor and Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Director or Commissioner.

31. Counterparts.

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

32. Surrender.

Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party in any lease, sub-lease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party shall forfeit such rights and no further benefits from operations hereunder as to said land shall accrue to such party, unless within ninety (90) days thereafter said party shall execute this agreement and the unit operating agreement as to the working interest acquired through such surrender, effective as though such land had remained continuously subject to this agreement and the unit operating agreement. And in the event such agreements are not so executed, the party next in the chain of title shall be and become the owner of such working interest at the end of such ninety (90) day period, with the same force and effect as though such working interest had been surrendered to such party.

If as the result of any such surrender or forfeiture the working interest rights as to such lands become vested in the fee owner of the unitized substances, such owner may:

(1) Execute this agreement and the unit operating agreement as a working interest owner, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(2) Again lease such lands but only under the condition that the holder of such lease shall within thirty (30) days after such lands are so leased execute this agreement and the unit operating agreement, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(3) Operate or provide for the operation of such land independently of this agreement as to any part thereof or any oil or gas deposits therein not then included within a participating area.

If the fee owner of the Unitized substances does not execute this agreement and the unit operating agreement as a working interest owner or again lease such lands as above provided, within six (6) months after any such surrender or forfeiture, such fee owner shall be deemed to have waived the right to execute the unit operating agreement or lease such lands, and to have agreed, in consideration for the compensation hereinafter provided, that operations hereunder shall not be affected by such surrender.

For any period the working interest in any lands are not expressly committed to the unit operating agreement as the result of any such surrender or forfeiture, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective participating working interest ownerships, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, applicable to such lands under the lease in effect when the lands were unitized, as to such participating area or areas.

Upon commitment of a working interest to this agreement and the unit operating agreement as provided in this section, an appropriate accounting and settlement shall be made, to reflect the retroactive effect of the commitment, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered working interest during the period between the date of surrender and the date of recommitment, and payment of any moneys found to be owing by such an accounting shall be made as between the parties then signatory to the unit operating agreement and this agreement within thirty (30) days after the recommitment. The right to become a party to this agreement and the unit operating agreement as a working interest owner by reason of a surrender or forfeiture as provided in this section shall not be defeated by the non-existence of a unit operating agreement and in the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor and Commissioner may prescribe such reasonable and equitable agreement as they deem warranted under the circumstances.

Nothing in this section shall be deemed to limit the right of joinder or subsequent joinder to this agreement as provided elsewhere in this agreement.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same

conditions as set forth in this section in regard to the exercise of a right to surrender.

PHILLIPS PETROLEUM COMPANY

Attest:

Assistant Secretary

By

Vice President

Phillips Building
Bartlesville, Oklahoma

UNIT OPERATOR AND WORKING INTEREST OWNER

WORKING INTEREST OWNERS

STANOLIND OIL AND GAS COMPANY

Attest:

Assistant Secretary

By

Vice President

APPROVED

Fair Building
Fort Worth, Texas

EL PASO NATURAL GAS COMPANY

Attest:

Assistant Secretary

By

Vice President

Bassett Tower
El Paso, Texas

WOOD RIVER OIL & REFINING CO., INC.

Attest:

Assistant Secretary

By

Vice President

321 West Douglas
Wichita, Kansas

SKELLY OIL COMPANY

Attest:

Assistant Secretary

By

Vice President

Skelly Building
Tulsa 2, Oklahoma

SUNRAY OIL CORPORATION

Attest:

Secretary

By

Vice President

1st National Bank Bldg.
Tulsa, Oklahoma

Attorney

GENERAL AMERICAN OIL COMPANY OF TEXAS

Attest:

W L Leonard
Assistant Secretary

By Jordan Simpson
Vice President

Republic Bank Building
Dallas, Texas

THE TEXAS COMPANY

Attest:

_____
Assistant Secretary

By J. H. Markley Jr.
~~Vice President~~
J R Rome 12/11/52
Ed Smith

P. O. Box 1720
Fort Worth, Texas

Date_____

Address:_____

_____

Date_____

Address:_____

_____

Date_____

Address:_____

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Date_____

Address:_____

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Date_____

Address:_____

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Date_____

Address:_____

_____

STATE OF Oklahoma)
) SS
COUNTY OF Washington)

On this 4th day of November, 1952, before me personally appeared C. A. Stark, to me personally known, who, being by me duly sworn did say that he is the Vice President of Phillips Petroleum Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said C. A. Stark acknowledged said instrument to be the free act and deed of said corporation.

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

Martha Bradshaw
Notary Public

My Commission Expires August 1, 1955

STATE OF Oklahoma)
) SS
COUNTY OF Tulsa)

On this 14 day of November, 1952, before me personally appeared H. O. Harder, to me personally known, who, being by me duly sworn did say that he is the Vice President of Sunray Oil Corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said H. O. Harder acknowledged said instrument to be the free act and deed of said corporation.

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

Mildred M Bradshaw
Notary Public

My Commission Expires 9-30-54

STATE OF Oklahoma)
)
COUNTY OF Tulsa)

On this 14th day of November, 1952, before me personally appeared A. L. CASHMAN, to me personally known, who, being by me duly sworn did say that he is the Vice President of Shelly Oil Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said A. L. CASHMAN acknowledged said instrument to be the free act and deed of said corporation.

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

Robt J. Buchanan
Notary Public

My Commission Expires Feb. 8, 1955

STATE OF TEXAS)
) SS
COUNTY OF Dallas)

On this 18th day of November, 1952, before me personally appeared GORDON SIMPSON, to me personally known, who, being by me duly sworn did say that he is the Vice President of General American Oil Company of Texas, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said GORDON SIMPSON acknowledged said instrument to be the free act and deed of said corporation.

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

Catherine R. Sullivan
Notary Public

My Commission Expires June 1, 1953

CATHERINE R. SULLIVAN

STATE OF TEXAS)
) SS
COUNTY OF El Paso)

On this 17th day of November, 1952, before me personally appeared C L Perkins, to me personally known, who, being by me duly sworn did say that he is the Vice President of El Paso Natural Gas Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said C L Perkins acknowledged said instrument to be the free act and deed of said corporation.

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

Louise M. Cress
Notary Public

My Commission Expires

LOUISE M. CRESS
Notary Public, in and for El Paso County, Texas
My commission expires June 1, 1953

STATE OF Oklahoma)
)
COUNTY OF Tulsa)

On this 19th day of November, 19___, before me personally appeared J. E. Rouse, to me personally known, who, being by me duly sworn did say that he is the Vice President of STANOLIND OIL AND GAS COMPANY, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. E. Rouse acknowledged said instrument to be the free act and deed of said corporation.

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

Marion McAdam
Notary Public

My Commission Expires

My Commission Expires October 4, 1955

STATE OF _____)
) SS
COUNTY OF_____)

On this _____day of _____, 19____, before me personally appeared _____, to me personally known, who, being by me duly sworn did say that he is the ____President of_____, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said_____acknowledged said instrument to be the free act and deed of said corporation.

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

_____
Notary Public

My Commission Expires_____

STATE OF _____)
) SS
COUNTY OF_____)

On this _____day of _____, 19_____, before me personally appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____President of _____, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said_____acknowledged said instrument to be the free act and deed of said corporation.

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

_____
Notary Public

My Commission Expires_____

STATE OF TEXAS
COUNTY OF TARRANT

On this 11th day of December, 1952, before me personally appeared [illegible], to me personally known, who, being by me duly sworn did say that he is the Attorney-in- Fact of The Texas Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said [illegible] acknowledged said instrument to be the free act and deed of said corporation.

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

Emma L. Willig
Notary Public in and for
Tarrant County, Texas

My Commission Expires
June 1, 1953

STATE OF_____)
) SS.
COUNTY OF_____)

On this _____day of _____, 19_____, before me personally appeared
_____
_____,
to me known to be the person____described in and who executed the foregoing instrument, and acknowledged that _____executed the same as _____ free act and deed.

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

_____
Notary Public

My commission expires:

_____ .

STATE OF_____)
) SS.
COUNTY OF_____)

On this _____day of _____, 19_____, before me personally appeared
_____
_____,
to me known to be the person____described in and who executed the foregoing instrument, and acknowledged that _____executed the same as_____free act and deed.

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

_____
Notary Public

My commission expires:

_____

STATE OF_____)
) SS.
COUNTY OF_____)

On this _____ day of _____, 19_____, before me personally appeared
_____
_____,
to me known to be the person_____described in and who executed the foregoing instrument, and acknowledged that_____executed the same as_____ free act and deed.

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

_____
Notary Public

My commission expires:

_____

GENERAL AMERICAN OIL COMPANY OF TEXAS

Attest:

_____
Assistant Secretary

By_____
Vice President

Republic Bank Building
Dallas, Texas

THE TEXAS COMPANY

Attest:

_____
Assistant Secretary

By_____
Vice President

P. O. Box 1720
Fort Worth, Texas

Date_____ _____

Address:_____
_____

Date_____ _____

Address:_____
_____

Date_____ _____

Address:_____
_____

Date_____ _____

Address:_____
_____

Date_____ _____

Address:_____
_____

Date_____ _____

Address:_____
_____

n

CERTIFICATE OF APPROVAL BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO, OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION OF SAN JUAN 32-8 UNIT AREA, SAN JUAN COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands in the State of New Mexico, for examination, the attached Agreement for the Development and Operation of the San Juan 32-8 Unit Area, San Juan County, New Mexico, in which Phillips Petroleum Company is desinated as Unit Operator and which has been executed by various parties owning and holding oil and gas leases embracing lands within the Unit Area, and upon examination of said agreement the Commissioner finds:

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

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

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

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

NOW, THEREFORE, by virtue of the authority conferred upon me by Chapter 88 of the Laws of the State of New Mexico, 1943, as amended by Chapter 162 of the Laws of the State of New Mexico, 1951, I, the undersigned Commissioner of Public Lands for the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said agreement and do hereby amend all leases embracing lands of the State of New Mexico committed to said unit agreement, to conform and extend said leases as provided in said agreement so that the provisions of each such lease, so far as they apply to lands within such area, will conform to the provisions of such agreement and so that the length of the secondary term as to lands within such area will be extended to coincide with the terms of such agreement. This approval is subject to all of the provisions of the aforesaid Chapter 88 of the Laws of the State of New Mexico, 1943, as amended by Chapter 162 of the Laws of the State of New Mexico, 1951.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 16th day of December, 1952.

Guy Shepard

Commissioner of Public Lands
of the State of New Mexico

Seal

AMENDMENT AND SUPPLEMENT TO
SAN JUAN 32-8 UNIT OPERATING AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of January, 1960, 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 interests in the Unit Area subject to the Unit Agreement for the Development and Operation of the San Juan 32-8 Unit Area, San Juan County, New Mexico, designated Contract Number 14-08-001-446, and subject to the Unit Operating Agreement for the San Juan 32-8 Unit Area (said Unit Operating Agreement hereinafter referred to as "Unit Operating Agreement"), reference to which is here made for all purposes; and

WHEREAS, the parties hereto desire to provide for the drilling and operation of wells to be completed in dual formations and for the sharing and allocation of costs and risks incident thereto.

NOW, THEREFORE, in consideration of the premises and the promises herein contained, and other good and valuable consideration, the full receipt and sufficiency of which are hereby acknowledged, the parties hereto have agreed and do agree as follows:

ARTICLE I

Unit Agreement Confirmed

The Unit Agreement and all Exhibits attached thereto, are hereby confirmed and made a part of this agreement; and in the event of any conflict between the provisions of the Unit Agreement and the provisions of the Unit Operating Agreement, as amended and supplemented hereby, the provisions of the Unit Agreement shall prevail.

ARTICLE II

Unit Operating Agreement Amended

In order to prevent conflict between the provisions of this Amendment and Supplement and the provisions of the Unit Operating Agreement, the following quoted sentence in Section 9 of the Unit Operating Agreement is hereby deleted:

> "In the event any one well is completed as a paying producer in more than one formation, the Working Interest Owners of the respective participating areas established for such formations shall arrange for appropriate allocation of investment and operating costs of such well by separate agreement."

ARTICLE III

Supplement to Unit Operating Agreement

The provisions which follow in this Article III are supplemental to the Unit Operating Agreement and are hereby adopted as part of said Agreement.

1. Definitions

"Shallow Owners" - the working interest owners either in the Unit Area, Participating Area, drilling block or in less than the Unit Area, whichever is applicable, owning the working interest in and to the shallower formation of a well to be drilled or which is completed in two formations.

"Deep Owners" - the working interest owners either in the Unit Area, Participating Area, drilling block or in less than the Unit Area, whichever is applicable, owning the working interest in and to the deeper formation of a well to be drilled or which is completed in two formations.

2. Formula for Allocation of Costs for Drilling and Completing Dual Wells.

Whenever in this Agreement it is provided that costs will be borne by Shallow Owners and Deep Owners in accordance with Section 2, Article III, the following procedures will be used:

At the same time Shallow and Deep Owners separately agree to the drilling of a well to be projected to dual formations, both such categories of Owners shall approve an estimate prepared by Unit Operator of the total costs of drilling and completing said well to the wellhead in both formations. Such approval shall be obtained in accordance with Section 7 of the Unit Operating Agreement. The estimated total costs shall be divided into the following categories:

a) Costs to be incurred above the base of the shallower of the two formations, except those set forth in Subsection (c) hereof.

b) Costs to be incurred below the base of the shallower of the two formations.

c) Costs attributable to testing and completing in the shallower formation.

Upon completion of the well, the actual costs of drilling, completing, testing and equipping such well will be apportioned among the three categories set forth hereinabove, and these actual costs will be paid by the obligated parties as follows:

a) Costs incurred above the base of the shallower formation except those set forth in Subsection (c) hereof will be shared equally by and between Shallow Owners and Deep Owners.

b) The costs incurred below the base of the shallower formation shall be paid by Deep Owners.

c) Costs attributable to testing and completing in the shallower formation shall be paid by Shallow Owners.

3. Drilling and Completing Dual Wells. Costs of drilling, testing, treating, equipping and completing wells to the wellhead which are begun with the objective of dual completion and which are completed as dual wells shall be borne by Shallow Owners and by Deep Owners in accordance with the provisions of Section 2, Article III. Until admission into a participating area the material and equipment thereon shall be owned by the party or parties paying the cost thereof pursuant to Section 2, Article III. Shallow Owners and Deep Owners shall respectively own, subject to allocation to an appropriate participating area, all unitized substances produced from their respective formations. Upon abandonment of the well if dry in both formations, costs of plugging and abandoning shall be shared equally by and between Shallow Owners and Deep Owners. Upon the completed well being admitted into a participating area or areas, the ownership of equipment and materials shall pass to the owners of the participating area or areas in accordance with the terms of Section 3 of the Unit Operating Agreement.

4. Completion of Well in Shallower Formation but Abandoned as to Deeper Formation. In the event that a well begun with the objective of dual completion is drilled to the deeper formation and results in discovery of unitized substances in paying quantities in the shallower formation but is dry in the deeper formation, all costs of drilling, testing and treating shall be borne by the Shallow Owners and Deep Owners in accordance with Section 2, Article III. All costs of equipping the well shall be borne by Shallow Owners. Further, Shallow Owners shall pay to Deep Owners the salvable value of the material and equipment or share thereof paid for or furnished by Deep Owners. Thereafter Shallow Owners shall own all material and equipment acquired in the drilling and completing of said well. Shallow Owners shall own all unitized substances produced from the shallow formation and shall bear all costs of plugging and abandonment of the well.

5. Completion of Well in Deeper Formation but Abandoned as to Shallower Formation. In the event that a well begun with the objective of dual completion results in discovery of unitized substances in paying quantities in the deeper formation, but dry in the shallower formation, all costs of drilling, testing and treating shall be borne by the Shallow Owners and the Deep Owners in accordance with the provisions of Section 2, Article III. All costs of equipping the well shall be borne by Deep Owners. Further, Deep Owners shall pay to Shallow Owners the salvable value of the material and equipment or share thereof paid for or furnished by Shallow Owners. Thereafter, Deep Owners shall own all material and equipment acquired in the drilling and completion of such well. Deep Owners shall own all unitized substances produced from the deeper formation, and shall bear all costs of plugging and abandoning the well.

6. Abandonment as to one Formation after Completion of Well in Both Formations. In the event that, after completion of a dual well, the working interest owners of one formation should decide to abandon the well as to their formation, the working interest owners of the remaining producing formation shall pay to the working interest owners of the formation to be abandoned, the salvage value of equipment belonging to the owners of the formation to be abandoned. The owners of the formation to be abandoned shall pay for the abandonment of that formation. After payment of the amount provided for above, the working interest owners of the formation from which the well continues to produce shall own all of such equipment. The working interest owners of the producing formation, after abandonment as to the other formation, shall also bear all costs of plugging and abandoning upon later abandonment of the well as to their formation.

7. Deepening a Shallow Well or Converting a Deeper Well for Dual Completion. Before any well which is completed in a single formation may be deepened or perforated at a shallower depth for purposes of completion as a dual well, the working interest owners of both formations must approve the operation under the general

provisions of the Unit Operating Agreement. The payment to the owners of the single existing completion by the owners desiring to dual the well shall be a fair value representative of the well. If the operation should result in an impairment of production from, or a loss of, the existing well, the provisions of Section 10, Article III shall govern unless otherwise provided for in the approval.

8. Allocation of General Operating and Maintenance Costs in Dual Wells. After completion of a dual well, the costs of producing operations shall be borne by the working interest owners of the two formations as follows:

   a) The completion in each separate formation shall be treated as a separate well for overhead and district and camp expense. Such expense shall be borne by the working interest owners of the respective formations as a separate cost allocable to their interest;

   b) Each formation shall bear all costs of normal producing operations, including costs of labor, repairs, maintenance and replacement of equipment attributable to such formation. All costs of operations performed for the joint benefit of both formations shall be borne on a per well basis by the Shallow Owners to the extent of 50% of the total cost, and by the Deep Owners to the extent of 50% of total cost.

9. Allocation of Cost of Workover Operations for both Formations. After completion of a dual well, the costs of any workover or other operations on such well involving both formations shall be borne by the working interest owners of such formations as follows:

   a) The costs of any operation which is directly related to one formation, including but not limited to operations such as treatments and perforations, shall be borne by the working interest owners of the formation for which the operation is performed.

   b) All costs of material, equipment, repairs, replacements and labor not directly related to one formation, including but not limited to repair and correction of leaks which may result in communication between the two formations within the well bore shall be borne by the Shallow Owners to the extent of 50% of the total cost and by Deep Owners to the extent of 50% of the total cost.

   c) Any material and equipment acquired by any such expenditures provided for in Subparagraph (a) and (b) above shall be owned by the Shallow Owners and the Deep Owners so as to be consistent with the ownership of the material and equipment as set forth in Section 3, Article III.

   d) The working interest owners of each formation shall not be responsible for nor be charged with any loss of production from any other formations during any such operation.

10. Workover Operations of One Formation. After completion of a dual well, any subsequent workover, deepening, plugging back, or other operations or repair as to one formation only of such well, which requires a separation of the formations for the repair or other work on any portion of the well, shall be governed by the provisions which follow:

a) The proposed plan of operation must be approved in accordance with the voting procedure prescribed by Section 7 of the Unit Operating Agreement prior to commencement of operations by the working interest owners of the formation not to be worked upon, if there be no participating area; or the working interest owners of the participating area for the formation not to be worked upon, if such well be within a participating area for that formation; or by the working interest owners of such well, if it be excluded from the participating area; whichever is applicable.

b) The costs and expenses of any such operations will be borne by the working interest owners of the formation to be worked upon, or the working interest owners of the participating area for the formation to be worked upon or by the working interest owners of such well in the formation to be worked upon, whichever is applicable.

c) The working interest owners bearing the cost of the operation shall not be liable to the working interest owners of the formation not being worked upon for cessation of production during such operations for a period of time not exceeding a total of ninety (90) days. In the event such cessation of production during operations is for a longer period of time, the working interest owners of the formation being worked upon, hereinafter referred to as Remedial Owners, shall pay to the working interest owners of the formation not being worked upon, hereinafter referred to as Damaged Owners, damages in such amount as shall be determined by Remedial Owners and Damaged Owners jointly in accordance with the voting procedure prescribed by Section 7 of the Unit Operating Agreement for loss of production occurring after a ninety (90) day period.

d) If such operations disturb or remove the means of separation of the two formations in the well bore or otherwise require a cessation of production from the other formation not being reworked, the operator shall, before and after the operation, conduct a test of the well as to such other formation for the purpose of determining whether or not the producing capacity as to said formation has been impaired, by employing the procedure set forth as follows:

(1) For an oil well producing capacity will be measured by actual production obtained for thirty (30) producing days immediately preceding the workover and compared with the actual production for thirty (30) producing days immediately following the workover operations. If either the conditions or equipment have in any way been changed during the period of comparison, then the production figures obtained shall be corrected by calculation to account for any such change or changes.

(2) With respect to gas wells connected to a gas gathering system, the producing capacity shall be determined by the actual production before and after the workover

and shall be the thirty (30) days in which there was actual production into the line immediately before or after the workover as applicable with the well producing under similar pressure differential and other conditions. If the producing conditions or equipment size are different or the well is not connected to a gathering system, an appropriate applicable method will be utilized to determine the effect on deliverabilities which the workover has caused.

(3) If the producing capacity of the well as to such other formation has been reduced in excess of twenty per cent (20%), damages will be deemed to have occurred. If damage has occurred, the rights and liabilities between Remedial Owners and Damaged Owners shall be adjusted in accordance with the provisions set out below:

Remedial Owners may at their sole cost, risk and expense attempt to restore the well to 80% of its former capacity or may pay to Damaged Owners the cost of a replacement well completed in the damaged formation. If the attempt is unsuccessful, or if no attempt is made, and if the cost of a replacement well is not so paid, Remedial Owners shall pay damages to Damaged Owners in an amount determined by the following formula:

$$\text{Damage Payment} = \text{Cost of Replacement Well} \times \left(1 - \frac{A}{0.80B}\right)$$

A = The capacity of the well from the damaged formation after the workover or other operation or after completion of any further work to restore the well as to the damaged formation which the Remedial Owners elect to perform.

B = The capacity of the well from the damaged formation before the workover or other operation which impaired the producing capacity of such well.

In no event, however, shall the amount of damages, as computed in the manner hereinabove provided, exceed the value of the remaining recoverable reserves (less cost of recovery) of the formation as to which the well was damaged which could have been recovered from such well if it had not been damaged. If more than one capacity test is made after completion of the workover or other operation or work performed at the election of Remedial Owners, the last capacity obtained in such testing will be used in calculating the reduction of capacity. The Remedial Owners will pay such damages within fifteen (15) days following the date the amount of damages is determined. Payment of damages will not alter the ownership of formations or equipment except if cost of a replacement well is paid Remedial Owners shall own all material and equipment on or used in connection with the damaged well and shall bear all costs of plugging and abandonment. If an attempt to restore the well to 80% of its former capacity is made and such attempt is successful, Remedial Owners shall have no further liability.

e) It is understood, however, that liability for loss or damages shall not accrue hereunder if: (1) in workover of the shallow formation such loss or damage exists prior to actual commencement of the operations to be performed in said formation, or,

in workover of the deep formation, loss or damage exists prior to penetration of workover equipment below the base of the shallow formation, and (2) the evidence is conclusive that the loss or damage resulted solely from the previously existing poor mechanical condition of the well.

11. Allocation of Overhead and District and Camp Expense in Dual Completion Operations. As to any well which was begun with the objective of dual completion and as to any well on which work is begun to deepen or to convert it into a dual completion, overhead charges during drilling shall be billed as though the well were a single well to be drilled to test the deepest formation, and for purposes of allocating district and camp expense among wells, each drilling well shall be treated as one well. Upon completion of such a well, each formation in which the well is completed shall be treated as a separate well for purposes of charging overhead and allocating field and camp expenses.

ARTICLE IV

Effective Date

When fully executed, as set forth in Article V, this Agreement shall be effective as to all parties hereto as of the first date hereinabove written, and unless otherwise terminated, it shall be effective as long as the Unit Agreement is effective. This Agreement may be terminated in any manner by which said Unit Agreement may be terminated.

ARTICLE V

Counterparts

This Amendment and Supplement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be a binding agreement when all parties owning a working interest committed to the San Juan 32-8 Unit 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.

EL PASO NATURAL GAS COMPANY

By _____
Attorney in Fact

Supplemental Execution Page to Amendment and Supplement to San Juan 32-8 Unit Operating Agreement, County of San Juan, State of New Mexico, effective January 1, 1960.

ATTEST:

_____
ASSISTANT Secretary

PHILLIPS PETROLEUM COMPANY

By _____
President

ATTEST:

_____
ASSISTANT Secretary

SKELLY OIL COMPANY

By _____
VICE President

ATTEST:

_____
Secretary

ROCK ISLAND OIL & REFINING CO., INC.

By _____
President

ATTEST:

_____
Secretary

SUNRAY MID-CONTINENT OIL COMPANY

By _____
President

ATTEST:

_____
ASSISTANT Secretary

GENERAL AMERICAN OIL COMPANY OF TEXAS

By _____
VICE President

ATTEST:

_____
Secretary

PAN AMERICAN PETROLEUM CORPORATION

By _____
President

ATTEST:

_____
Secretary

TEXACO, INC.

By _____
President

Supplemental Execution Page to Amendment and Supplement to San Juan 32-8 Unit Operating Agreement, County of San Juan, State of New Mexico, effective January 1, 1960.

ATTEST:

PHILLIPS PETROLEUM COMPANY

_____
Secretary

By _____
President

ATTEST:

SKELLY OIL COMPANY

_____
Secretary

By _____
President

ATTEST:

ROCK ISLAND OIL & REFINING CO., INC.

_____
Secretary

By _____
President

ATTEST:

SUNRAY MID-CONTINENT OIL COMPANY

_____
Secretary

By _____
President

ATTEST:

GENERAL AMERICAN OIL COMPANY OF TEXAS

_____
Secretary

By _____
President

ATTEST:

PAN AMERICAN PETROLEUM CORPORATION

APPROVED

_____
Secretary

By _____
ATTORNEY-IN-FACT ~~President~~

ATTEST:

TEXACO, INC.

_____
Secretary

By _____
President

Supplemental Execution Page to Amendment and Supplement to San Juan 32-8 Unit Operating Agreement, County of San Juan, State of New Mexico, effective January 1, 1960.

ATTEST:

PHILLIPS PETROLEUM COMPANY

_____
Secretary

By _____
President

ATTEST:

SKELLY OIL COMPANY

_____
Secretary

By _____
President

ATTEST:

ROCK ISLAND OIL & REFINING CO., INC.

_____
Secretary

By _____
President

ATTEST:

SUNRAY MID-CONTINENT OIL COMPANY

_____
Secretary

By _____
President

ATTEST:

GENERAL AMERICAN OIL COMPANY OF TEXAS

_____
Secretary

By _____
President

ATTEST:

PAN AMERICAN PETROLEUM CORPORATION

_____
Secretary

By _____
President

~~ATTEST:~~

APPROVED AS TO
Terms
Form

TEXACO, INC.

_____
~~Secretary~~

By J L Sleeper
Attorney-in-Fact ~~President~~

Supplemental Execution Page to Amendment and Supplement to San Juan 32-8 Unit Operating Agreement, County of San Juan, State of New Mexico, effective January 1, 1960.

ATTEST:

PHILLIPS PETROLEUM COMPANY

_____
Secretary

By _____
President

ATTEST:

SKELLY OIL COMPANY

_____
Secretary

By _____
President

ATTEST:

ROCK ISLAND OIL & REFINING CO., INC.

_____
Secretary

By _____
President

ATTEST:

SUNRAY MID-CONTINENT OIL COMPANY

Murva Penfrow
Assistant Secretary

By K E Fox
Vice President

ATTEST:

GENERAL AMERICAN OIL COMPANY OF TEXAS

_____
Secretary

By _____
President

ATTEST:

PAN AMERICAN PETROLEUM CORPORATION

_____
Secretary

By _____
President

ATTEST:

TEXACO, INC.

_____
Secretary

By _____
President

Supplemental Acknowledgement Page to Amendment and Supplement to San Juan 32-8 Unit Operating Agreement, County of San Juan, State of New Mexico, effective January 1, 1960.

STATE OF TEXAS)
)
COUNTY OF EL PASO)

The foregoing instrument was acknowledged before me this 14th day of July, 1960, by SAM SMITH, Attorney in Fact of EL PASO NATURAL GAS COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission expires:

NATALIE TAYLOR
Notary Public In and for El Paso County, Texas
My Commission Expires June 1, 1961

Natalie Taylor
Notary Public

STATE OF Okla.)
)
COUNTY OF Washington)

The foregoing instrument was acknowledged before me this 4th day of February, 1960, by C O Stark, Vice President of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission expires:

Pauline Walkup
Notary Public

STATE OF Okla)
)
COUNTY OF Tulsa)

The foregoing instrument was acknowledged before me this 3rd day of February, 1960, by A. L. GOSMAN, VICE-PRESIDENT of SKELLY OIL COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission expires:

HAZEL M. BRADY
Notary Public Tulsa County Oklahoma
My Commission Expires January 21, 1961

Hazel M. Brady
Notary Public

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this_____day of _____, 19____, by_____, _____ of ROCK ISLAND OIL & REFINING CO., INC., a_____corporation, on behalf of said corporation.

My Commission expires:

_____
Notary Public

Supplemental Acknowledgement Page to Amendment and Supplement to San Juan 32-8 Unit Operating Agreement, County of San Juan, State of New Mexico, effective January 1, 1960.

STATE OF ____)
)
COUNTY OF ____)

The foregoing instrument was acknowledged before me this ____ day of _____, 19____, by _____, _____ of SUNRAY MID-CONTINENT OIL COMPANY, a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

STATE OF Texas)
)
COUNTY OF Dallas)

The foregoing instrument was acknowledged before me this 6th day of June, 19 60, by C. W. Bagwell, Vice President of GENERAL AMERICAN OIL COMPANY OF TEXAS, a Delaware corporation, on behalf of said corporation.

My Commission expires:

June 1, 1961

_____
Notary Public

MY COMMISSION EXPIRES JUNE 1, 1961

STATE OF ____)
)
COUNTY OF ____)

The foregoing instrument was acknowledged before me this ____ day of _____, 19____, by _____, _____ of PAN AMERICAN PETROLEUM CORPORATION, a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

STATE OF ____)
)
COUNTY OF ____)

The foregoing instrument was acknowledged before me this ____ day of _____, 19____, by _____, _____ of TEXACO, INC., a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

Supplemental Acknowledgement Page to Amendment and Supplement to San Juan 32-8 Unit Operating Agreement, County of San Juan, State of New Mexico, effective January 1, 1960.

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ of SUNRAY MID-CONTINENT OIL COMPANY, a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ of GENERAL AMERICAN OIL COMPANY OF TEXAS, a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

STATE OF TEXAS)
)
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me this 14th day of March, 1960, by C. F. BEDFORD, ATTORNEY-IN-FACT of PAN AMERICAN PETROLEUM CORPORATION, a Delaware corporation, on behalf of said corporation.

My Commission expires:

June 4 1961

Pauline A. Kay
Notary Public
PAULINE A. KAY

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ of TEXACO, INC., a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

Supplemental Acknowledgement Page to Amendment and Supplement to San Juan 32-8 Unit Operating Agreement, County of San Juan, State of New Mexico, effective January 1, 1960.

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ of SUNRAY MID-CONTINENT OIL COMPANY, a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ of GENERAL AMERICAN OIL COMPANY OF TEXAS, a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ of PAN AMERICAN PETROLEUM CORPORATION, a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

STATE OF Texas)
)
COUNTY OF Midland)

The foregoing instrument was acknowledged before me this 23 day of February, 1960, by _____, _____ of TEXACO, INC., a Delaware corporation, on behalf of said corporation.

My Commission expires:

6-1-61

_____
Notary Public

Supplemental Acknowledgement Page to Amendment and Supplement to San Juan 32-8 Unit Operating Agreement, County of San Juan, State of New Mexico, effective January 1, 1960.

STATE OF Oklahoma ⎫
⎬
COUNTY OF Tulsa ⎭

The foregoing instrument was acknowledged before me this 3rd day of June, 1960, by R. E. Fass, Vice President of SUNRAY MID-CONTINENT OIL COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission expires:

Oct. 21, 1961

Donna Jean Meyer
Notary Public

STATE OF ⎫
⎬
COUNTY OF ⎭

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ of GENERAL AMERICAN OIL COMPANY OF TEXAS, a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

STATE OF ⎫
⎬
COUNTY OF ⎭

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ of PAN AMERICAN PETROLEUM CORPORATION, a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public

STATE OF ⎫
⎬
COUNTY OF ⎭

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ of TEXACO, INC., a _____ corporation, on behalf of said corporation.

My Commission expires:

_____

_____
Notary Public