

Case No. 3642

Phillips Exhibit 1

UNIT AGREEMENT
and
UNIT OPERATING AGREEMENT

WEST CAP QUEEN SAND UNIT

CHAVES COUNTY, NEW MEXICO

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
WEST CAP QUEEN SAND UNIT
CAPROCK FIELD
CHAVES COUNTY, NEW MEXICO

UNIT AGREEMENT

WEST CAP QUEEN SAND UNIT

Chaves County, New Mexico

TABLE OF CONTENTS

Section		Page
	Preliminary Recitals	1
1	Enabling Act and Regulations	2
2	Definitions	2
	(a) Commission	2
	(b) Commissioner	2
	(c) Department	2
	(d) Director	2
	(e) Paying Quantities	2
	(f) Productive Acreage	2
	(g) Remaining Primary Production	2
	(h) Royalty Interest	2
	(i) Royalty Owner	3
	(j) Secondary Production	3
	(k) Secretary	3
	(l) Supervisor	3
	(m) Unitized Formation	3
	(n) Unitized Substances	3
	(o) Unitized Land	3
	(p) Unit Manager	3
	(q) Unit Operating Agreement	3
	(r) Usable Well	3
	(s) Working Interest	3
	(t) Working Interest Owner	4
3	Unit Area and Participation	4
4	Unitized Substances and Rights	5
5	Unit Operator	5
6	Resignation or Removal of Unit Operator	6
7	Successor Unit Operator	6
8	Accounting Provisions and Unit Operating Agreement	6
9	Rights and Obligations of Unit Operator	7
10	Plan of Operations	7

Section		Page
11	Tract Participation	7
12	Tracts Qualified for Unit Participation	8
13	Allocation of Unitized Substances	9
14	Royalty Settlement	11
15	Oil in Lease Tanks on Effective Date	12
16	Reports	12
17	Rental Settlement	12
18	Conservation	12
19	Drainage	12
20	Leases and Contracts Conformed and Extended	12
21	Mathematical Errors	14
22	Covenants Run With Land	14
23	Effective Date and Term	14
24	Rate of Prospecting, Development and Production	16
25	Nondiscrimination	16
26	Appearances	16
27	Notices	16
28	No Waiver of Certain Rights	16
29	Unavoidable Delay	16
30	Loss of Title	17
31	Nonjoinder and Subsequent Joinder	17
32	Counterparts	18
33	Taxes	18

Exhibits

Exhibit "A": Map of Unit Area

Exhibit "B": Leasehold Information With Working
Interest Participations

Certificate of Approval - State of New Mexico

**Approval - Certification - Determination by United
States Geological Survey**

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
WEST CAP QUEEN SAND UNIT
CAPROCK FIELD
CHAVES COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 1st day of April, 1962, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as "parties hereto",

W I T N E S S E T H :

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 162, Laws of 1951) to amend with the approval of the lessee, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of the unitized development and operation of State lands; and

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

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30. U.S.C. Sections 181 et seq., authorizes Federal lessees and their representatives to unite with each other or jointly or separately with others in collectively adopting and operating a 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 parties hereto hold sufficient interests in the Unit Area subject to this agreement to give reasonable effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, to conserve natural resources,

prevent waste and secure the other benefits obtainable through development and operation of the Unit Area subject to this Agreement under the terms, conditions and limitations herein set forth.

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

1. ENABLING ACT AND REGULATIONS: The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations heretofore issued thereunder, 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 the State of New Mexico, are hereby accepted and made a part of this Agreement.

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

- (a) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Department" is defined as the Department of the Interior of the United States of America.
- (d) "Director" is defined as the Director of the United States Geological Survey.
- (e) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells completed in the Unitized Formation.
- (f) "Productive Acreage" is defined as and shall mean the acreage reasonably proven to be productive of Unitized Substances from the Unitized Formation.
- (g) "Remaining Primary Production" is defined as and shall be all oil produced from the Unitized Formation from December 1, 1960, until 7:00 o'clock a.m. the first day of the calendar month after ~~200,000~~ 223,582 barrels of oil have been produced from the Unitized Formation. The above Remaining Primary Production is predicated upon 100 per cent commitment of the hereinabove described lands as constituting the Unit Area, and shall be subject to correction to coincide with the Remaining Primary Production of the unitized portion of the reservoir, in event of noncommitment of any tract.
- (h) "Royalty Interest" means a right to or interest in any portion of the Unitized Substances or proceeds thereof other than Working Interest.

- (i) "Royalty Owner" means a party hereto who owns a Royalty Interest.
- (j) "Secondary Production" is defined as and shall be all oil produced from the Unitized Formation after the Remaining Primary Production has been produced.
- (k) "Secretary" is defined as the Secretary of the Interior of the United States of America.
- (l) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey.
- (m) "Unitized Formation" is defined as and shall mean [that heretofore established underground reservoir, underlying Unit Area and commonly known as the Queen Sand or Formation of the Guadalupe series of the Permian system, being further identified as the producing sand found in Phillips Petroleum Company Cleat Well No. 1, located in the SE/4, NE/4, Section 17-14S-31E, Chaves County, New Mexico, between the depths of 1366 feet and 1400 feet above sea level.]
- (n) "Unitized Substances" is defined as and shall mean all of the oil and gas contained in or produced from the Unitized Formation.
- (o) "Unitized Land" or "land subject to this Agreement" is defined as and shall mean those lands within the Unit Area which are committed to this Agreement.
- (p) "Unit Manager" is defined as the person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8 hereof.
- (q) "Unit Operating Agreement" is defined as and shall mean the agreement entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 9, entitled, "Unit Operating Agreement, West Cap Queen Sand Unit, Chaves County, New Mexico", or any amendment or supplement thereto.
- (r) "Usable Well" is defined as a well which has been drilled in the Unit Area to the depth of the Unitized Formation and has casing in the hole in condition for use as either a producing well or an injection well, and on which well there has been filed with the State of New Mexico, on or before the effective date of this Agreement, a well record and Completion Report (Form C-105) or Request for Oil Allowable (Form C-104) and which well has produced some oil from the Unitized Formation and has had an allowable granted for it by the Oil Conservation Commission of the State of New Mexico.
- (s) "Working Interest" means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing, and operating the Unitized Formation.

- (t) "Working Interest Owner" means a party hereto who owns a Working Interest. The owner of oil and gas rights that are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

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

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

T. 14S, R. 31E

Sec. 8: E/2 NE/4, SE/4, SW/4
16: SW/4 SW/4
17: NW/4, NE/4, SE/4, SW/4
20: NE/4
21: NW/4, NE/4, N/2 SE/4, SW/4 SE/4

Situated in Chaves County, New Mexico, containing 1680 acres, more or less, and such additional lands to which this agreement may be extended, all as herein provided.

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

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

- (a) The owner or owners of the Working Interest in and to a tract or tracts desiring to bring such tract or tracts into the Unit Area, shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the unit participation to be assigned to such tract or tracts, and other pertinent data. After negotiation (at Working

Interest Owners' meeting or otherwise) if Working Interest Owners having ninety per cent (90%) of the Working Interest in the Unit Area agree to such tract or tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Director and the Commissioner,

- (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional tract or tracts, the unit participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the day of notice; and
- (2) Deliver copies of said notice to the Commissioner and Supervisor, each Working Interest Owner (mailing copy of such notice to the last known address of each such Working Interest Owner) and to the lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansions; and
- (3) File, upon the expiration of said thirty (30) day period as set out in Item 2 immediately above, with the Commissioner and Supervisor the following: (a) evidence of mailing copies of said notice of expansion; (b) an application for such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirement of Section 31, "Nonjoinder and Subsequent Joinder", infra; and (d) copy of any objections received.

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

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

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

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

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

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

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

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

7. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator by a majority of the Working Interests on the basis of unit participation, provided no Unit Operator who has been removed may vote for self succession. Such selection shall not become effective until (a) a Unit Operator so selected shall accept, in writing, the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and the Director. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Commissioner and the Director, at their election, may declare this Unit Agreement terminated.

8. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: Costs and expenses incurred by Unit Operator, in conducting unit operations hereunder, shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the agreement or agreements entered into (separately or collectively) by and between the Working Interest Owners. Such Unit Operating Agreement shall also provide the

manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this section shall be filed with the Commissioner and three true copies shall be filed with the Supervisor, prior to approval of this Agreement.

9. 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.

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

11. TRACT PARTICIPATION: In Exhibit "B", attached hereto, there are listed and numbered the various tracts within the Unit Area and set forth opposite each tract are figures which represent the respective percentages of Primary and Secondary participations allocated to each tract. The percentage of Primary participation of each tract shall be based upon the summation of three factors to be weighted as follows, to-wit:

- (1) 10% times the ratio of the productive acreage of the tract to the total productive acreage of all the tracts of the Unit Area.
- (2) 45% times the ratio of Current Production from the tract to the total Current Production from all tracts in the Unit Area. Current Production is defined as the gross oil production for the eleven-month period beginning January 1, 1960, to December 1, 1960.
- (3) 45% times the ratio of Remaining Primary Production from the tract to the total Remaining Primary Production from all tracts in the Unit Area.

The percentage of Secondary participation of each tract is based upon the summation of two factors to be weighted as follows, to-wit:

- (1) 10% times the ratio of the productive acreage of the tract to the total productive acreage of all the tracts in the Unit Area.
- (2) 90% times the Ultimate Primary Production from the tract to the Ultimate Primary Production from all the tracts in the Unit Area. Ultimate Primary Production is the sum of the accumulated oil production to December 1, 1960, and the Remaining Primary Production.

After said "Remaining Primary Production" has been produced, effective at 7:00 o'clock a.m., the first day of the following calendar month, the tract participations shall be in accordance with the "Secondary Production" allocations as set forth in Exhibit "B" attached hereto.

12. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof, the tracts within the Unit Area, which shall be entitled to participation in the production of Unitized Substances therefrom, shall be those tracts within the Unit Area and more particularly described in Exhibit "B" that are qualified as follows:

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

provided, and as to which 85% of the Working Interest Owners qualified under (a), exclusive of the Working Interest Owner submitting such tract, have approved the inclusion of such tract in the Unit Area.

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

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

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

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

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

If any Working Interest or Royalty Interest in any tract is or becomes divided and owned in severalty as to different parts of the tract, the percentage participation attributable to such interest, in the absence of recordable instrument executed by the owners of the divided interest and furnished to the Unit Operator

providing for a different division, shall be divided among the separate owners in proportion to the surface acres of their respective parts of the tracts.

The Unitized Substances allocated to each tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Such party shall have the right to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided the same are so constructed, maintained and operated not to interfere with operations carried on pursuant hereto. Subject to Section 14 hereof, Royalty Settlement, any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the Unitized Substances from the Unit Area currently as and when produced, then so long and only so long, as such conditions continue, Unit Operator, for the account and at the expense of such party in order to avoid curtailing the operation of the Unit Area, may sell or itself purchase such production on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such party shall be charged therewith as having received the same. The proceeds, if any, of the Unitized Substances so disposed of by Unit Operator, shall be paid to the party entitled thereto, notwithstanding the foregoing Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days' notice of such intended sale.

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

If, after the effective date of this Agreement, there is any tract or tracts that are subsequently committed hereto, as above provided in Section 3, Unit Area and Participation, or any tract or tracts within the Unit Area not effectively committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Section 31, Nonjoinder and Subsequent Joinder, or if any tract is excluded from the Unit Area as provided for in Section 30, Loss of Title, the schedule of participation as shown in Exhibit "B" shall be revised by the Working Interest Owners to show the new percentage participation of all of the then effectively committed tracts and the revised Exhibit "B", upon approval by the Commissioner and the Supervisor under Section 30, Loss of Title, and Section 31, Nonjoinder and Subsequent Joinder, and upon application by the Commissioner and the Director under Section 3, Unit Area and Participation, shall govern the allocation of Unitized Substances from and after the effective date thereof until a new schedule is so approved.

14. ROYALTY SETTLEMENT: The State of New Mexico and the United States of America and all Royalty Owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, division orders, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases, except that such royalties shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this agreement is introduced into the Unitized Formation for repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with the plan of operation first approved by the Supervisor and the Commissioner, a like amount of gas, less appropriate deduction by loss from any cause, may be withdrawn from said Unitized Formation, royalty free as is dry gas, but not as to the products extracted therefrom; provided such withdrawal shall be at such time as may be provided in the plan of operation or as may otherwise be consented to by the Supervisor and the Commissioner as to conforming to good engineering practices; and provided further that such right of withdrawal shall terminate on the termination of this unit agreement.

If natural gasoline, liquid petroleum gas fractions, or other liquid hydrocarbon substances (herein collectively called "LPGs") are injected, at any time or from time to time, into the Unitized Formation, which were not extracted from gas produced from said Unitized Formation, then the Working Interest Owners furnishing such LPGs for injection shall be entitled to recover, royalty free, from a percentage (to be determined as hereinafter provided) of LPGs extracted from gas thereafter produced from the Unitized Formation and allocated to such Working Interest Owners, a total quantity of LPGs equal to the total quantity of LPGs injected. The percentage above referred to shall be determined as of the last day of each calendar month by dividing the aggregate quantity (in gallons) of LPGs injected prior to and during such calendar month by the sum of (1) the estimated quantity (in gallons) of extractable LPGs in the Unitized Formation at the time immediately preceding the initial injection of LPGs, plus (2) the aggregate quantity (in gallons) of LPGs injected prior to and during such calendar month. The estimated quantity of extractable LPGs in the Unitized Formation at the time immediately preceding the initial injection of LPGs shall be determined by the Unit Operator in accordance with sound engineering factors, subject to appropriate approval by the Working Interest Owners pursuant to section entitled "Tracts Qualified for Unit Participation" and by the Supervisor and the Commissioner.

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

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement, represents and warrants that it

is the owner of a Royalty Interest in a tract or tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a tract or tracts should be lost by title failure in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

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

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

17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental for lands of the State of New Mexico, subject to this Agreement, shall be paid at the rate specified in the respective leases from the State of New Mexico. Rental or minimum royalty from lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

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

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

20. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas of lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the

drilling, producing, rental, minimum royalty or royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement. Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

- (a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract subject to this Agreement, regardless of whether there is any development of any particular part or tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.
- (b) Drilling, producing or secondary recovery operations performed hereunder upon any tract of unitized land will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.
- (c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioner and the Secretary, or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized lands.
- (d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this Agreement is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.
- (e) Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.
- (f) Any lease embracing lands of the State of New Mexico, which is made subject to this Agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof. ✓
- (g) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the land committed and as to the land not committed and the terms of such leases shall apply separately as to such segregated portions commencing as of the effective date hereof. Provided, however, that notwithstanding any of the provisions of this Agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced ✓

in such lease if oil or gas is, or has heretofore been, discovered in paying quantities on some part of the lands embraced in such lease committed to this Agreement, or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

- (h) The segregation of any Federal lease committed to this Agreement is governed by the following provisions in the fourth paragraph of Sec. 17 (v) of the Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

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

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

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

- (a) The execution or ratification of this Agreement and the Unit Operating Agreement by Working Interest Owners owning a combined unit participation of at least eighty-five per cent (85%), and the execution or ratification of this Agreement by Royalty Owners owning a combined interest of at least seventy-five per cent (75%) of the Royalty Interest in the lands described in Section 3 of this Agreement;
- (b) The approval of this Agreement by the Commissioner, the Secretary or his duly authorized representative, and the Commission;
- (c) The filing of at least one counterpart of this Agreement for the record in the Records of Chaves County, New Mexico, by Unit Operator; and provided further, that if (a), (b) and (c) are not accomplished on or before January 1, 1963, this Agreement shall ipso facto terminate on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined unit participation of at least ninety per cent (90%), and Working Interest Owners owning a combined unit participation of at least ninety per cent (90%) committed to this Agreement have decided to extend said termination date for a period not to exceed six (6) months. If said termination date is so extended and (a), (b) and (c) are not accomplished on or before said extended termination date, this Agreement shall ipso facto terminate on said extended termination date and thereafter be of no further force or effect. For the purpose of this section, ownership shall be computed on the basis of unit participation. Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for the record in the office or offices where a counterpart of this Agreement is recorded, a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date.

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

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

If not otherwise covered by the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of three (3) months after termination of this Agreement in which to salvage, sell, distribute, or

otherwise dispose of the personal property and facilities used in connection with unit operations.

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

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

25. NONDISCRIMINATION: In the performance of work under this Agreement the Operator agrees to comply with the nondiscrimination provisions of Executive Order 10925 (26 F.R. 1977).

26. APPEARANCES: Unit Operator shall, after notice to the other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner of Public Lands, the Department of the Interior and the New Mexico Oil Conservation Commission and to appeal from order issued under the regulations of said Commissioner, Department or Commission, or to apply for relief from any of said regulations or in any proceedings relative to operations before the said Commissioner, Department or Commission, or any other legally constituted authority, provided, however, that any other interested party shall also have the right, at his own expense, to be heard in any such proceedings.

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

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

29. UNAVOIDABLE DELAY: All obligations under this Agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce

Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as the Unit Operator, despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agencies, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

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

31. NONJOINER AND SUBSEQUENT JOINER: If the owner of any substantial interest in a tract within the Unit Area fails or refuses to subscribe or consent in writing to this Agreement, the Working Interest Owner in that tract who has executed or ratified this Agreement may withdraw said tract from this Agreement by written notice to the Director and the Unit Operator prior to approval of this Agreement by the Secretary or his duly authorized representative, or such tract may be included in the Unit Area if the same can be and is qualified as provided in Section 12 hereof, Tracts Qualified for Unit Participation. Such withdrawal as above provided, shall, without further action, also operate to withdraw all Royalty Interest in such tract or tracts theretofore committed hereto. Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to submission of this Agreement to the Commissioner and the Director for final approval, may thereafter be committed hereto upon compliance with the applicable provisions of Section 12 hereof, at any time up to the effective date hereof and for a period of six (6) months thereafter, on the same basis of participation as provided for in Section 12 by the owner or owners thereof subscribing or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after six (6) months from the effective date hereof, the right of subsequent joinder as provided in this section shall be subject to such requirements or approvals and on such basis as may be agreed upon by ninety per cent (90%) of the Working Interest Owners. Such joinder

by a Royalty Owner must be evidenced by his execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may otherwise herein be provided, subsequent joinder to this Agreement shall be effective at 7:00 o'clock a.m. as of the first day of the month following the filing with the Commission, Commissioner and the Supervisor 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 sixty (60) days by the Commission, Commissioner or Director.

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

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

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

WORKING INTEREST OWNERS

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
PHILLIPS PETROLEUM COMPANY		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary
Address _____ _____		
K. S. ADAMS, JR.		WITNESS:
_____	_____	_____
Address _____ _____		
R. S. ANDERSON, INC.		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary
Address _____ _____		
BROSECO CORPORATION		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary
Address _____ _____		

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
A. D. PRESE		WITNESS:
_____	_____	_____
Address _____		

GULF OIL CORPORATION		ATTEST:
By _____	_____	By _____
Vice President		Assistant Secretary
Address _____		

GORDON E. HERKENHOFF		WITNESS:
_____	_____	_____
Address _____		

T. F. HODGE		WITNESS:
_____	_____	_____
Address _____		

A. C. HOLDER		WITNESS:
_____	_____	_____
Address _____		

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
O. J. HOLDER		WITNESS:
_____ Address _____ _____	_____	_____
TOM H. HOOD		WITNESS:
_____ Address _____ _____	_____	_____
PAUL N. LAYMAN, SR.		WITNESS:
_____ Address _____ _____	_____	_____
R. LOUNSBERY		WITNESS:
_____ Address _____ _____	_____	_____
J. R. McLAUGHLIN		WITNESS:
_____ Address _____ _____	_____	_____

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
R. L. McLAUGHLIN		WITNESS:
<hr/> Address <hr/> <hr/>	<hr/>	<hr/>
W. L. MAGUIRE		WITNESS:
<hr/> Address <hr/> <hr/>	<hr/>	<hr/>
WALTER N. MAGUIRE		WITNESS:
<hr/> Address <hr/> <hr/>	<hr/>	<hr/>
HENRY D. MERCER		WITNESS:
<hr/> Address <hr/> <hr/>	<hr/>	<hr/>
JOHN D. MESCHUK, M.D.		WITNESS:
<hr/> Address <hr/> <hr/>	<hr/>	<hr/>

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
D. D. PATTERSON		WITNESS:
_____	_____	_____
Address _____		

E. D. PEARCE		WITNESS:
_____	_____	_____
Address _____		

PECOS LAND & DEVELOPMENT CO., INC.		ATTEST:
By _____	_____	By _____
Vice President		Assistant Secretary
Address _____		

NEVILLE G. PENROSE, INC.		ATTEST:
By _____	_____	By _____
Vice President		Assistant Secretary
Address _____		

PREMIER TITLE & MORTGAGE CO., TRUSTEE		ATTEST:
By _____	_____	By _____
Vice President		Assistant Secretary
Address _____		

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
JOHN B. RICH		WITNESS:
_____	_____	_____
Address _____		

R. S. ROGERS		WITNESS:
_____	_____	_____
Address _____		

WM. G. ROSS		WITNESS:
_____	_____	_____
Address _____		

SINCLAIR OIL & GAS COMPANY		ATTEST:
By _____	_____	By _____
Vice President		Assistant Secretary
Address _____		

TIDEWATER OIL COMPANY		ATTEST:
By _____	_____	By _____
Vice President		Assistant Secretary
Address _____		

Name

Date Signed

Attest, If a Corporation or
Witness, If an Individual

L. C. WHITE

WITNESS:

Address _____

CHAS. H. WOOD

WITNESS:

Address _____

STATE OF _____)
COUNTY OF _____) ss

CORPORATION ACKNOWLEDGMENT

On this _____ day of _____, 1962, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal of office this _____ day of _____, 1962.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

CORPORATION ACKNOWLEDGMENT

On this _____ day of _____, 1962, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal of office this _____ day of _____, 1962.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

JOINT ACKNOWLEDGMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____ and _____ his wife.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

JOINT ACKNOWLEDGMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____ and _____ his wife.

My Commission Expires:

Notary Public in and for said
County and State

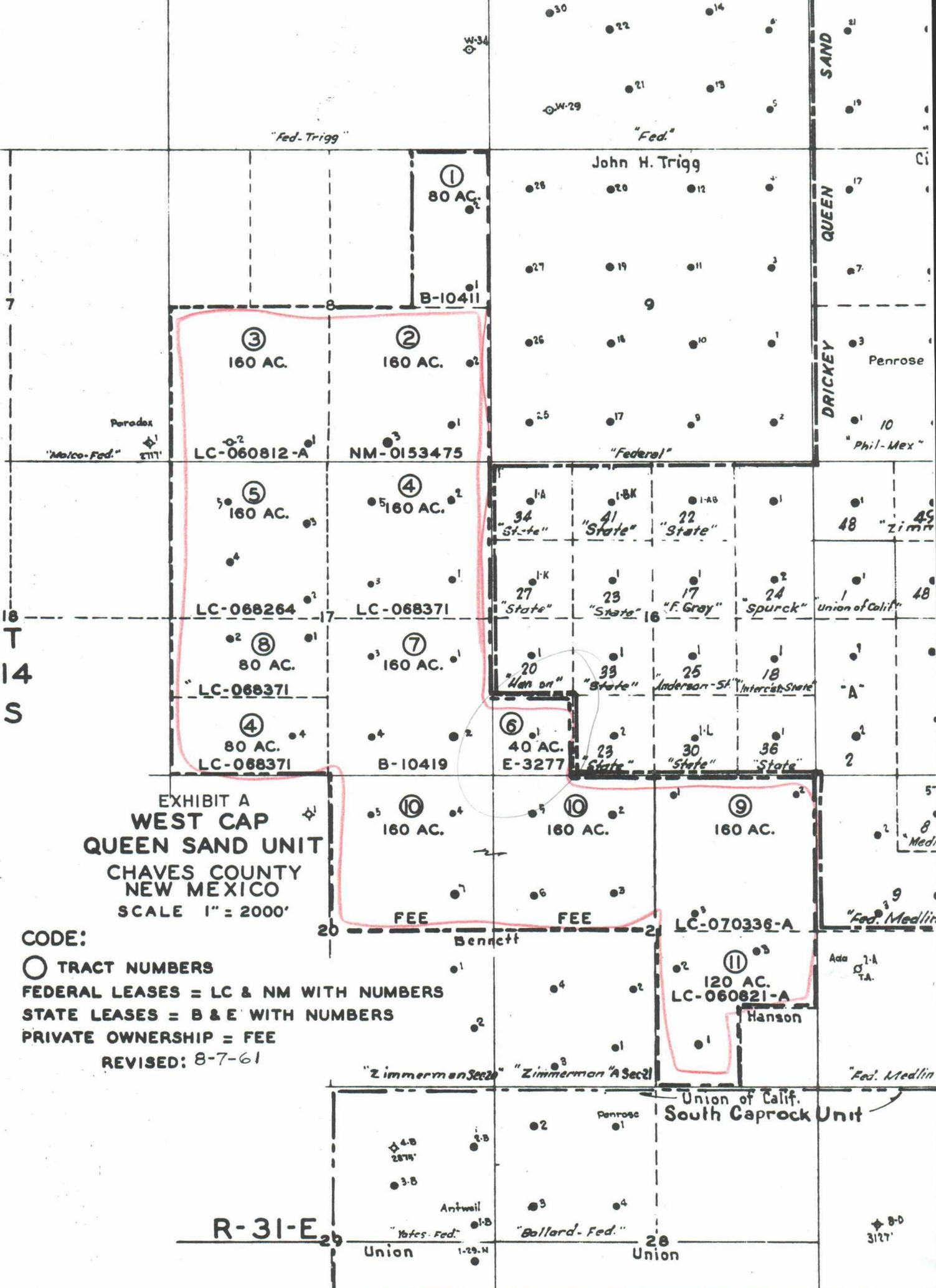
STATE OF _____)
COUNTY OF _____) ss

JOINT ACKNOWLEDGMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____ and _____ his wife.

My Commission Expires:

Notary Public in and for said
County and State



**EXHIBIT A
WEST CAP
QUEEN SAND UNIT
CHAVES COUNTY
NEW MEXICO
SCALE 1" = 2000'**

CODE:
 ○ TRACT NUMBERS
 FEDERAL LEASES = LC & NM WITH NUMBERS
 STATE LEASES = B & E WITH NUMBERS
 PRIVATE OWNERSHIP = FEE
 REVISED: 8-7-61

R-31-E_{2b}

Union of Calif.
South Caprock Unit

EXHIBIT "B"
WEST CAP QUINN SAND UNIT
CHAVES COUNTY, NEW MEXICO

Leasehold Information and Working Interest Participations

act	Description of Land	No. of Acres	No. of Wells	Lease and/or Assignment Number	Basic Royalty	Lessee of Record	Overriding Royalty Owners and Amount	Working Interest Owners and Amount		Percent of Participation In Unit		Remaining Primary as of 12-1-60, Barrels
								Working Interest Owners and Amount	Working Interest Owners and Amount	Primary	Secondary	
2	SE/4 Sec. 8-T.14S-R.31E, Chaves County, New Mexico	160	3	MM-0153475 12-1-60	12 1/2% USA	Sinclair Oil & Gas Company	None	Sinclair Oil & Gas Company	100%	8.84308	10.13479	23,102
3	SW/4 Sec. 8-T.14S-R.31E, Chaves County, New Mexico	160	1	LC-060812-A 7-1-48	12 1/2% USA	Gulf Oil Corp.	Vergil O. Hopp Olen F. Featherstone Rubie C. Bell Elis. W. Crosby 1.6667% 1.6667 0.8333 0.8333 5.0000	Gulf Oil Corporation	100%	1.08712	1.9534	1,380
4	NE/4 and S/2 SW/4 Sec. 17-T.14S-R.31E, Chaves, New Mexico	240	5	LC-068371 8-1-49	12 1/2% USA	J. R. Miller Assigned to Phillips Petroleum Co. 6-9-55	Ada M. Mills J. R. Miller E. H. Peterson 0.5000 1.7500 1.0000 3.2500	Phillips Petroleum Company	100%	17.10224	19.18434	42,002
5	NW/4 Sec. 17-T.14S-R.31E, Chaves County, New Mexico	160	4	LC-068264 6-1-49 5-31-59 Extended	12 1/2% USA	Melco Ref. Co. and T. F. Hodge	T. F. Hodge Melco Ref. Co. J. R. & G. A. Miller 11.0677% 14.6667 2.0000 27.73438	T. F. Hodge, Oper. A. D. Fress Paul N. Layman, Sr. R. Lounsbury W. L. Maguire Walter N. Maguire Henry D. Mercar Premier Title & Mortgage Co., Trustee Pecos Land & Dev. Co., Inc. 4.3403047 7.4674025 100.0000000	4.800%	7.468082	6,754	
3	N/2 SW/4 Sec. 17-T.14S-R.31E, Chaves Co., New Mexico	80	2	LC-068371 8-1-49	12 1/2% USA	J. R. Miller Assigned to Phillips Petroleum Co. 6-9-55 Assigned to A. C. Holder	J. R. Miller Ada M. Mills E. H. Peterson Phillips Petroleum Co. 1.75000 0.50000 1.00000 3.46875 8.71875	G. E. Hertenhoff A. C. Holder, Oper. O. J. Holder Tom H. Hood J. R. & R. L. McLaughlin Dr. John D. Meschuk D. D. Patterson E. D. Pearce R. S. Rogers Wm. G. Ross L. C. White Chas. H. Wood 10.000 12.500 5.000 10.000 7.500 5.000 5.000 12.500 5.000 12.500 100.000	4.75124	3.92120	8,218	
3	NE/4 Sec. 21-T.14S-R.31E, Chaves County, New Mexico	160	3	LC-070336-A 4-1-55	12 1/2% USA	Ed Shockley	Ed & Ruth Shockley Olen F. Featherstone Ada M. Mills E. H. Peterson Elis. W. Crosby Rubie C. Bell 0.300 1.350 0.500 1.000 0.675 0.675 4.500	K. S. Adams, Jr.	100%	13.73974	10.81548	29,273
1	W/2 SE/4 and NE/4 SE/4 of Sec. 21-T.14S-R.31E, Chaves County, New Mexico	120	3	LC-060821A 11-1-47	12 1/2% USA	Frank A. Sener	Olen F. Featherstone Rubie C. Bell Elis. W. Chaney Frank A. Sener 1.350 0.675 0.675 0.300 3.000	R. S. Anderson, Inc. Broesco Corporation John B. Rich Neville G. Penrose, Inc. 12.500 27.708 1.458 58.324 100.000	18.01177	10.17646	42,770	

Remaining
Primary as
of 12-1-60,
Barrels

Percent of Participation
in Unit
Primary Secondary

Working Interest Owners and Amount

Lessee of Record

Basic Royalty

Lease and/or
Assignment
Number

No. of
Wells

Description of Land

No. of
Acres

Tract No.	Description of Land	No. of Acres	No. of Wells	Lease and/or Assignment Number	Basic Royalty	Lessee of Record	Working Interest Owners and Amount	Percent of Participation in Unit	Remaining Primary as of 12-1-60, Barrels	
								Primary	Secondary	
7	FEDERAL TRACTS	1,080	21							
1	E/2 NE/4 Sec. 8-T.14S-R.31E, Chaves County, New Mexico	80	2	B-10411 Assigned #20 7-2-43	12 1/2% State of New Mexico	W. E. Lee, et ux	First National Bank, Reno, Nev. & Clarence E. Hinkle Co-Trustees U/M of Allie M. Lee, Dec'd. 12.50000% 2.34375 5.19531 0.27344 10.93750 31.25000	2.70741	3.87720	3,813
6	SW/4 SW/4 Sec. 16-T.14S-R.31E, Chaves County, New Mexico	40	1	E-3277 2-10-50	12 1/2% State of New Mexico	Phillips Petroleum Co.	Phillips Petroleum Company	3.96125	4.81608	6,132
7	SE/4 Sec. 17-T.14S-R.31E, Chaves County, New Mexico	160	4	B-10419 7-6-43	12 1/2% State of New Mexico	Tidewater Oil Company	Thorolf-Silverstein 3.000% Tidewater Oil Company	7.69948	11.52992	18,428
3	STATE TRACTS	280	7							
0	NE/4 Sec. 20 & NW/4 Sec. 21-T.14S-R.31E, Chaves County, New Mexico	320	7	Fee Lease 3-6-46 *Mabel Alston Ruth Zimmerman Wm. P. Zimmerman Hazel Z. Hart Total	12 1/2% Private Owners*	Gulf Oil Corporation	Gulf Oil Corporation	17.459573	16.11007	41,710
1	FEE LEASE	320	7							
	UNIT TOTAL	1,680	35					100.00000%	100.00000%	223,582

CERTIFICATE OF APPROVAL
BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO,
OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION OF THE
WEST CAP QUEEN SAND UNIT AREA, COUNTY OF CHAVES, NEW MEXICO

There has been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, an agreement for the development and operation of the West Cap Queen Sand Unit Area, Chaves County, New Mexico, dated April 1, 1962, in which Phillips Petroleum Company is designated as Operator, and which has been executed by various parties owning and holding oil and gas leases embracing lands within the Unit Area and upon examination of said agreement, the Commissioner finds:

- (a) That such agreement will tend to promote conservation of oil and gas and the better utilization of reservoir energy in said field;
- (b) That under the operations proposed, the state will receive its fair share of the recoverable oil or gas in place under its land in the area affected;
- (c) That the agreement is in other respects for the best interests of the state;
- (d) That the agreement provides for the unit operation of the field, for allocation of production and sharing of proceeds from the area covered by the agreement in accordance with a formula for participation as specified in the agreement regardless of the particular tract from which production is obtained or proceeds are derived and for repressuring or secondary recovery operations.

NOW, THEREFORE, by virtue of the authority conferred upon me by virtue of the Laws of the State of New Mexico, I, the undersigned Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the state, do hereby consent to and approve the above referred to West Cap Queen Sand Unit Agreement as to the lands of the State of New Mexico committed hereto, and all oil and gas leases embracing lands of the State of New Mexico committed to said agreement shall be and the same are hereby amended so that the provisions thereof will conform to the provisions of said Unit Agreement and so that the length of the secondary term of each such lease as to the lands within the Unit Area will be extended, insofar as is necessary, to coincide with the term of said Unit Agreement and in the event the term of said Unit Agreement shall be extended as provided therein, such extension shall also be effective to extend the term of each oil and gas lease embracing lands of the State of New Mexico committed to said Unit Agreement which would otherwise expire, so as to coincide with the extended term of such Unit Agreement.

IN WITNESS WHEREOF, this Certificate of Approval is executed as of this
_____ day of _____, 1962.

Commissioner of Public Lands of the
State of New Mexico

APPROVAL - CERTIFICATION - DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior under the Act approved February 25, 1920, 41 Stat. 437, 30 U.S.C. Secs. 181 et seq., as amended by the Act of August 8, 1946, 60 Stat. 950, and delegated to the Director of the Geological Survey, pursuant to Departmental Order No. 2365 of October 8, 1947, 43 CFR Sec. 4.618, 12 FR 6784, I do hereby:

- A. Approve the attached secondary recovery Unit Agreement for the development and operation of the West Cap Queen Sand Unit Area, State of New Mexico.
- B. Certify and determine that the unit plan for secondary recovery contemplated in the attached Agreement is necessary and advisable in the public interest and is for the purpose of more properly conserving the natural resources.
- C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of the Federal lease or leases committed to said agreement are hereby established, altered, changed or revoked to conform with the terms and conditions of the Agreement.

Dated _____.

Contract No. _____

Director
United States Geological Survey

UNIT OPERATING AGREEMENT
WEST CAP QUEEN SAND UNIT
CHAYES COUNTY, NEW MEXICO

UNIT OPERATING AGREEMENT

WEST CAP QUEEN SAND UNIT

Chaves County, New Mexico

TABLE OF CONTENTS

Section		Page
	Preliminary Recitals	1
	1. CONFIRMATION OF UNIT AGREEMENT	
1.1	Confirmation of Unit Agreement	1
	2. EXHIBITS	
2.1	Exhibits	1
2.1.1	Exhibits "A" and "B": Reference to Unit Agreement	1
2.1.2	Exhibit "C": Primary and Secondary Participations of Each Tract	1
2.1.3	Exhibit "D": Accounting Procedure	1
2.1.4	Exhibit "E": Insurance Provisions	1
2.1.5	Exhibit "F": Summary of Working Interest Ownership by Individuals and Companies	1
2.2	Revision of Exhibits	1
	3. SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS	
3.1	Overall Supervision	2
3.2	Particular Powers and Duties	2
3.2.1	Method of Operation	2
3.2.2	Drilling of Wells	2
3.2.3	Well Recompletion and Change of Status	2
3.2.4	Expenditures	2
3.2.5	Disposition of Surplus Facilities	2
3.2.6	Appearance Before a Court or Regulatory Body	2
3.2.7	Audits	2
3.2.8	Inventories	3
3.2.9	Technical Services	3
3.2.10	Assignments to Committees	3
3.2.11	Removal of Unit Operator	3
3.2.12	Enlargement of Unit Area	3
3.2.13	Adjustment and Readjustment of Investments	3
3.2.14	Termination	3

4. MANNER OF EXERCISING SUPERVISION

4.1	Designation of Representatives	3
4.2	Meetings	3
4.3	Voting Procedure	4
4.3.1	Voting Interest	4
4.3.2	Vote Required - Generally	4
4.3.3	Vote at Meeting by Non-attending Working Interest Owners	4
4.3.4	Poll Votes	4

5. INDIVIDUAL RIGHTS AND PRIVILEGES
OF WORKING INTEREST OWNERS

5.1	Reservation of Rights	4
5.2	Specific Rights	4
5.2.1	Access to Unit Area	4
5.2.2	Reports by Request	4

6. UNIT OPERATOR

6.1	Initial Unit Operator	4
6.2	Resignation or Removal	5
6.3	Selection of Successor	5

7. POWERS AND DUTIES OF UNIT OPERATOR

7.1	Exclusive Right to Operate Unit	5
7.2	Workmanlike Conduct	5
7.3	Liens and Encumbrances	5
7.4	Employees	5
7.5	Records	5
7.6	Reports to Working Interest Owners	5
7.7	Reports to Governmental Authorities	5
7.8	Engineering and Geological Information	6
7.9	Expenditures	6
7.10	Settlements	6
7.11	Fair Employment	6

8. TAXES

8.1	Ad Valorem Taxes	6
8.2	Direct Taxes and Assessments	6

Section		Page
9. INSURANCE		
9.1	Insurance	7
	9.1.1 Workmen's Compensation and Employers' Liability .	7
	9.1.2 Other Insurance	7
10. ADJUSTMENT OF INVESTMENTS		
10.1	Personal Property Taken Over	7
	10.1.1 Wells and Casing	7
	10.1.2 Well and Lease Equipment	7
	10.1.3 Records	7
10.2	Inventory and Evaluation of Personal Property	7
10.3	Investment Adjustment	7
10.4	General Facilities	7
10.5	Ownership of Personal Property and Facilities	8
11. DEVELOPMENT AND OPERATING COSTS		
11.1	Basis of Charge to Working Interest Owners	8
11.2	Budgets	8
11.3	Advance Billings	8
11.4	Commingling of Funds	8
11.5	Lien of Unit Operator	8
11.6	Wells Drilled by Unit Operator	9
11.7	Burden of Unsigned One-eighth (1/8) Royalty Interest . .	9
11.8	Burden of Excess Royalty and Other Interests	9
12. OPERATION OF NON-UNITIZED FORMATIONS		
12.1	Right to Operate in Non-Unitized Formations	9
12.2	Dual Completions	9
12.3	Appropriated Water Rights	10
13. TITLES		
13.1	Title Representation and Indemnification	10
13.2	Failure Because of Unit Operations	10
14. LIABILITY, CLAIMS AND SUITS		
14.1	Individual Liability	10
14.2	Settlements	10
15. INTERNAL REVENUE PROVISION		
15.1	Internal Revenue Provision	11

16. NOTICES

16.1 Notices 11

17. WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal 11

18. ABANDONMENT OF WELLS

18.1 Rights of Former Owners 11
 18.2 Plugging 12

19. EFFECTIVE DATE AND TERM

19.1 Effective Date 12
 19.2 Term 12

20. ABANDONMENT OF OPERATIONS

20.1 Termination 12
 20.1.1 Oil and Gas Rights 12
 20.1.2 Right to Operate 12
 20.1.3 Salvaging Wells 12
 20.1.4 Cost of Salvaging 12

21. COUNTERPART EXECUTION

21.1 Execution by Separate Counterparts or Ratifications . . . 13

22. SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns 13

EXHIBITS

- Exhibit "C": Tract Primary and Secondary Participations
- Exhibit "D": Accounting Procedure
- Exhibit "E": Insurance Provisions
- Exhibit "F": Summary of Working Interest by Individuals
and Companies

UNIT OPERATING AGREEMENT
WEST CAP QUEEN SAND UNIT
CHAVES COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of April, 1962, by and between the parties who execute or ratify this agreement,

W I T N E S S E T H :

WHEREAS, The parties hereto as Working Interest Owners have executed, as of the date hereof, that certain Unit Agreement "West Cap Queen Sand Unit, Chaves County, New Mexico", hereinafter referred to as "Unit Agreement", and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners pertaining to the development and operation of the Unit Area therein defined;

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

1. CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and incorporated herein by reference and made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. In the event of any conflict between the Unit Agreement and this agreement, the Unit Agreement shall prevail.

2. EXHIBITS

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

2.1.1 Exhibits "A" and "B" of the Unit Agreement.

2.1.2 Exhibit "C" attached hereto, is a schedule showing the total Primary Participation and Secondary Participation of each Tract.

2.1.3 Exhibit "D" attached hereto, is the Accounting Procedure applicable to development and operation of the Unit Area. In the event of conflict between this agreement and Exhibit "D", this agreement shall prevail.

2.1.4 Exhibit "E", attached hereto, contains insurance provisions applicable to the development and operation of the Unit Area.

2.1.5 Exhibit "F", attached hereto, is a summary of Working Interest Ownership by individuals and by companies.

2.2 Revision of Exhibits. Whenever Exhibits "A" and "B" are revised, Exhibit "C" shall also be revised accordingly and shall be effective as of the effective date of revised Exhibits "A" and "B".

3. SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

3.2 Particular Powers and Duties. The matters to be passed upon and decided by Working Interest Owners shall include, but not be limited to the following:

3.2.1 Method of Operation. The kind, character, and method of operation, including any type of pressure regulation or secondary recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well within the Unit Area either for production of Unitized Substances, for use as an injection well, or for other purposes.

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

3.2.4 Expenditures. Making of any single expenditure in excess of Ten Thousand Dollars (\$10,000); provided that approval by Working Interest Owners of the drilling, drilling deeper or plugging back of any well shall include approval of all necessary expenditures required therefor for completing, testing, and equipping the same, including necessary flow lines, separators and lease tanks.

3.2.5 Disposition of Surplus Facilities. Selling or otherwise disposing of any major item of surplus material or equipment, the current list price of new equipment similar thereto being One Thousand Five Hundred Dollars (\$1,500) or more.

3.2.6 Appearance Before a Court or Regulatory Body. A designating of a representative to appear before any court or regulatory body in matters pertaining to unit operations; provided, however, that the authorization by Working Interest Owners of the designation of any such representatives shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. To provide for proper audits of the accounts of Unit Operator pertaining to operations hereunder; provided, that such audits shall

- (a) not be conducted more than once each year or upon the resignation or removal of Unit Operator; and shall
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator; and

(c) be upon not less than thirty (30) days' written notice to Unit Operator.

3.2.8 Inventories. To provide for periodic inventories under the terms of Exhibit "D".

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

3.2.10 Assignments to Committees. The appointment or designation of the purposes of committees or subcommittees necessary for the study of any problem in connection with Unit operations.

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

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

4. MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall advise Unit Operator in writing the names and addresses of its representative and alternate authorized to represent and bind it in respect to any matter pertaining to the development and operation of the Unit Area. Such representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit Area shall be called by Unit Operator upon its own motion or at the request of two or more Working Interest Owners having a total Unit Participation of not less than ten per cent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. The Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding such amended item or from deciding other items presented at such meeting. The representative of Unit Operator shall be chairman of each meeting. At each meeting, the chairman shall designate a suitable person to act as secretary for the purpose of keeping minutes which shall reflect all matters considered and all actions taken at the meeting, although such minutes need not be a verbatim record of the proceedings. If request therefor is made at the meeting, the minutes shall reflect the vote of Working Interest Owners on the action or actions specified in the request. As promptly as reasonably possible after each meeting, Unit Operator shall mail to each Working Interest Owner a true copy of the minutes of the meeting, as signed by the chairman and attested by the secretary; such minutes shall be deemed approved and shall be considered correct unless, within thirty (30) days after the mailing of copies thereof as above provided, Unit Operator receives written objections thereto, with specifications of the item or items objected to and a statement of the reasons for the objection.

4.3 Voting Procedure. Working Interest Owners shall act upon and determine all matters coming before them as follows:

4.3.1 Voting Interest. In voting on any matter each Working Interest Owner shall have a voting interest equal to its Unit Participation as set out in Exhibit "C" in effect at the time unless otherwise provided herein or in the Unit Agreement.

4.3.2 Vote Required - Generally. Except as may otherwise be provided herein or in the Unit Agreement, Working Interest Owners shall act upon and determine all matters coming before them by the affirmative vote of three or more Working Interest Owners owning fifty-one per cent (51%) or more voting interest.

4.3.3 Vote at Meeting by Non-attending Working Interest Owners. Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item.

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

5. INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

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

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

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

5.2.2 Reports by Request. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports and all other data pertaining to Unit operations. The cost of gathering and furnishing data not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged solely to Working Interest Owners requesting the same.

6. UNIT OPERATOR

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

6.2 Resignation or Removal. Unit Operator may resign at any time. Working Interest Owners may remove Unit Operator by the affirmative vote of at least eighty-five per cent (85%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator who resigns or is removed shall not be released from its obligations hereunder for a period of six (6) months after its resignation or discharge unless a successor Unit Operator shall have taken over the operations hereunder prior to the expiration of said period.

6.3 Selection of Successor. In the event of the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by the Working Interest Owners, provided no Unit Operator who is so removed may vote to succeed itself.

7. POWERS AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to the orders, directions and limitations rightfully given or imposed by Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to develop and operate the Unit Area for the production of Unitized Substances.

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

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

7.4 Employees. The number of employees used by Unit Operator in conducting operations hereunder, 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 Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep true and correct books, accounts, and records of its operations hereunder.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner, monthly reports of the development and operation of the Unit Area.

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Ten Thousand Dollars (\$10,000) without prior approval of Working Interest Owners.

7.10 Settlements. Unit Operator may settle any single damage claim not involving an expenditure in excess of One Thousand Dollars (\$1,000) provided such payment is a complete settlement of such claim.

7.11 Fair Employment. In connection with the performance of work under this Agreement, the Unit Operator shall not discriminate against any employee or applicant for employment because of race, religion, color or national origin. The aforesaid provisions shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation and selection for training including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer, setting forth the provisions of the non-discrimination clause. The Unit Operator agrees to insert the foregoing provisions in all sub-contracts hereunder, except sub-contracts for standard commercial supplies or raw materials.

8. TAXES

8.1 Ad Valorem Taxes. Unit Operator shall make and file for ad valorem tax purposes, all necessary renditions and returns with the proper taxing authorities or governmental subdivisions covering all real and personal property of each Working Interest Owner within the Unit Area and used in connection with the development and operation of the Unit Area. All such ad valorem taxes due and payable on account of real and personal property of each Working Interest Owner located within the Unit Area and used in connection with Unit operations shall be paid by Unit Operator for the joint account in the same manner as other costs and expenses of Unit operations.

If the Unit has not been effected prior to January 1, 1963, the Working Interest Owners of the respective Tracts will prepare and file tax returns in accordance with the established assessment procedure. The Working Interest Owners filing returns as above set out will pay the entire tax and will bill the Unit Operator for the proportion of the calendar year subsequent to the date the Unit becomes effective. The Unit Operator will render a statement for the portion of the tax billed in accordance with this Section 8.1 to the various Working Interest Owners based on their Unit participation.

8.2 Direct Taxes and Assessments. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering and other direct taxes and assessments imposed upon or on account of the production or handling of its share of Unitized Substances.

9. INSURANCE

9.1 Insurance. Unit Operator shall carry, with respect to Unit operations subject to this agreement;

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

9.1.2 Such other insurance as set forth in Exhibit "E".

10. ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the effective date hereof, Working Interest Owners shall deliver to Unit Operator possession of:

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

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

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit expense inventory and evaluate in accordance with the provisions of Exhibit "D" the personal property so taken over. Material and equipment shall be appraised at time of inventory with regard to its age, use and physical condition. In this connection, Working Interest Owners agree to furnish Unit Operator a list of their underground equipment prior to the taking of such inventory.

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

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, water supply wells, water pressure plant and lines necessary for operations hereunder shall be by negotiation by and between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

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

11. DEVELOPMENT AND OPERATING COSTS

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

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

11.3 Advance Billings. Unit Operator shall have the right at its option to require Working Interest Owners to advance their respective proportions of such costs and expenses by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly.

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

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon such Working Interest Owner's leasehold and other mineral interests (exclusive of a 1/8 royalty interest) in each Tract, its interest in all

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

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

11.7 Burden of Unsigned One-eighth (1/8) Royalty Interest. Should the owner of a Royalty Interest fail or refuse to execute or become bound by the Unit Agreement and as a result thereof the royalty payments with respect to such Tract are more or less than a basic one-eighth (1/8) royalty computed on the basis of the Unitized Substances allocated to such Tract under the Unit Agreement, said differences shall be borne by or inure to the benefit of Working Interest Owners in proportion to their respective Unit Participations. Such adjustments shall be made by charges and credits to the joint account.

11.8 Burden of Excess Royalty and Other Interests. If any interest contributed by a Working Interest Owner is burdened with a royalty in excess of the customary one-eighth (1/8) or by an overriding royalty, production payment or similar obligation, such excess burden shall be borne solely by the Working Interest Owner contributing such interest.

12. OPERATION OF NON-UNITIZED FORMATIONS

12.1 Right to Operate in Non-Unitized Formations. Any Working Interest Owner now having, or hereafter acquiring, the right to drill for and produce oil, gas, or other minerals, other than Unitized Substances, within the Unit Area shall have the full right to do so notwithstanding this agreement. In exercising said right, however, such Working Interest Owner shall exercise every reasonable precaution to prevent unreasonable interference with operations hereunder. No Working Interest Owner shall produce Unitized Substances through any well within the Unit Area drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be cased or otherwise protected in such a manner that the Unitized Formation and the production of Unitized Substances will not be adversely affected.

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

12.3 Appropriated Water Rights. Any Working Interest Owner who has appropriated water rights within the Unit Area shall agree to the allocation of such amount of water as is required for the operation of the Unit up to limit appropriated by Chaves County Underground Water Basin to such Working Interest Owner. This is not deemed as an assignment of the appropriated water rights to the Unit, but is a covenant to allow the Unit so much of the appropriated water as is required for efficient operation of the waterflood program, subject to the limitations and requirements of the State Engineer's office.

13. TITLES

13.1 Title Representation and Indemnification. Each Working Interest Owner represents that it is the owner of the respective Working Interests set forth opposite its name in Exhibit "C" and hereby indemnifies and holds the other Working Interest Owners harmless from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of operations hereunder; provided however, that such indemnity shall be limited to an amount equal to the net value that has been received from the sale of Unitized Substances attributed hereunder to the interest as to which title failed. Each failure of title will be effective, insofar as this agreement is concerned, as of 7:00 o'clock A.M. on the first day of the calendar month in which such failure is finally determined and there shall be no retroactive adjustment of development and operating expenses, Unitized Substances or the proceeds therefrom as a result of title failure.

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

14. LIABILITY, CLAIMS AND SUITS

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

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

15. INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Each Working Interest Owner hereby elects that it and the operations covered by this Agreement be excluded from the application of Sub-Chapter "K" of Chapter 1 of Subtitle "A" of the Internal Revenue Code of 1954, pursuant to Section 761 (a) thereof, or similar provision of an applicable state income tax law. Unit Operator is hereby authorized and directed to execute and file on behalf of each Working Interest Owner such returns and statements as may be required to make such election effective under the law and the regulation promulgated thereunder.

16. NOTICES

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

17. WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. If any Working Interest Owner so desires, it may withdraw from this agreement by conveying, assigning and transferring without warranty of title, either express or implied, to the other Working Interest Owners who do not desire to withdraw herefrom, all of the former's rights, title and interest in and to its lease or leases, or other operating rights in the Unit Area, insofar as said lease, leases or rights pertain to the Unitized Formation, together with the withdrawing Working Interest Owner's interest in all wells, pipe lines, casing, injection equipment, facilities and other personal property used in conjunction with the development and operation of the Unit Area; provided, that such transfer, assignment or conveyance shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the execution and delivery thereof. The interest so transferred, assigned and conveyed shall be taken and owned by the other Working Interest Owners in proportion to their respective Unit Participations. After the execution and delivery of such transfer, assignment or conveyance, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under said Unit Agreement; and the right of such Working Interest Owner to any benefits subsequently accruing hereunder and under said Unit Agreement shall cease; provided, that upon delivery of said transfer, assignment or conveyance, the assignees, in the ratio of the respective interests so acquired, shall pay to the assignor for its interest in all jointly-owned equipment, casing and other personal property the fair salvage value thereof, as estimated and fixed by Working Interest Owners.

18. ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the Working Interest Owners of the Tract on which such well is located and said Working Interest Owners shall have the right and option for a period of ninety (90) days after receipt of such notice to notify Unit Operator of their election to take over and own said well and to deepen or plug back said well to a formation other

than the Unitized Formation. Within ten (10) days after said Working Interest Owners have so notified Unit Operator of their desire to take over such well, they shall pay to Unit Operator, for credit to the joint account of the Working Interest Owners, the amount as estimated and fixed by Working Interest Owners to be the net salvage value of the casing and equipment in and on said well. At the same time the Working Interest Owners taking over the well shall agree by letter addressed to Unit Operator to effectively seal off and protect the Unitized Formation, and at such time as the well is ready for abandonment to plug and abandon the well in a workmanlike manner in accordance with applicable laws.

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

19. EFFECTIVE DATE AND TERM

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

19.2 Term. This Agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect and thereafter until all Unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Section 20 hereof, and all personal and real property acquired for the joint account of Working Interest Owners has been disposed of by Unit Operator in accordance with instructions of Working Interest Owners and there has been a final accounting.

20. ABANDONMENT OF OPERATIONS

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

20.1.1 Oil and Gas Rights. Possession of all Oil and Gas Rights in and to the several separate Tracts shall revert to the Working Interest Owners thereof.

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

20.1.3 Salvaging Wells. With respect to all wells not taken over by Working Interest Owners, Unit Operator shall at the joint expense of Working Interest Owners salvage as much of the casing and equipment in and on such wells as can economically and reasonably be salvaged and shall cause the same to be properly plugged and abandoned.

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

21. COUNTERPART EXECUTION

21.1 Execution by Separate Counterparts or Ratifications. This Agreement may be executed in any number of counterparts and each counterpart so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument; or may be ratified by a separate instrument in writing referring to this agreement. Each such ratification shall have the force and effect of an executed counterpart and of adopting by reference all of the provisions hereof.

22. SUCCESSORS AND ASSIGNS

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

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

WORKING INTEREST OWNERS

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
PHILLIPS PETROLEUM COMPANY		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary

K. S. ADAMS, JR.		WITNESS:
_____	_____	_____

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
R. S. ANDERSON, INC.		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary

BROSECO CORPORATION		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary

A. D. FRESE		WITNESS:
_____	_____	_____

GULF OIL CORPORATION		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary

GORDON E. HERKENHOFF		WITNESS:
_____	_____	_____

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
T. F. HODGE		WITNESS:
_____	_____	_____
A. C. HOLDER		WITNESS:
_____	_____	_____
O. J. HOLDER		WITNESS:
_____	_____	_____
TOM H. HOOD		WITNESS:
_____	_____	_____
PAUL N. LAYMAN, SR.		WITNESS:
_____	_____	_____
R. LOUNSBERY		WITNESS:
_____	_____	_____

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
J. R. McLAUGHLIN		WITNESS:
_____	_____	_____
R. L. McLAUGHLIN		WITNESS:
_____	_____	_____
W. L. MAGUIRE		WITNESS:
_____	_____	_____
WALTER N. MAGUIRE		WITNESS:
_____	_____	_____
HENRY D. MERCER		WITNESS:
_____	_____	_____

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
JOHN D. MESCHUK, M.D.		WITNESS:
_____	_____	_____

D. D. PATTERSON		WITNESS:
_____	_____	_____

E. D. PEARCE		WITNESS:
_____	_____	_____

PECOS LAND & DEVELOPMENT CO., INC.		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary

NEVILLE G. PENROSE, INC.		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary

Name

Date Signed

Attest, If a Corporation or
Witness, If an Individual

PREMIER TITLE & MORTGAGE CO., TRUSTEE

ATTEST:

By _____
Vice President

By _____
Assistant Secretary

JOHN B. RICH

WITNESS:

R. S. ROGERS

WITNESS:

WM. G. ROSS

WITNESS:

SINCLAIR OIL & GAS COMPANY

ATTEST:

By _____
Vice President

By _____
Assistant Secretary

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
TIDEWATER OIL COMPANY		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary

L. C. WHITE		WITNESS:
_____	_____	_____

CHAS. H. WOOD		WITNESS:
_____	_____	_____

STATE OF _____)
COUNTY OF _____) ss

CORPORATION ACKNOWLEDGMENT

On this _____ day of _____, 1962, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal of office this _____ day of _____, 1962.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

CORPORATION ACKNOWLEDGMENT

On this _____ day of _____, 1962, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal of office this _____ day of _____, 1962.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

JOINT ACKNOWLEDGMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____ and _____ his wife.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

JOINT ACKNOWLEDGMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____ and _____ his wife.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

JOINT ACKNOWLEDGMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____ and _____ his wife.

My Commission Expires:

Notary Public in and for said
County and State

EXHIBIT " D "

PASO-T-1955-2

Attached to and made a part of UNIT OPERATING AGREEMENT
WEST CAP QUEEN SAND UNIT
Chaves County, New Mexico

ACCOUNTING PROCEDURE**(UNIT AND JOINT LEASE OPERATIONS)****I. GENERAL PROVISIONS****1. Definitions**

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

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

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

2. Statements and Billings

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

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

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

C. Statements as follows:

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

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

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

3. Payments by Non-Operator

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

4. Adjustments

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

5. Audits

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

II. DEVELOPMENT AND OPERATING CHARGES

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

1. Rentals and Royalties

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

2. Labor

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

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

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

6. Service

A. Outside Services:

The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:

Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and 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 cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.
- 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 or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

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

11. District and Camp Expense (Field Supervision and Camp Expense)

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's District Office office located at or near Hobbs, New Mexico (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice, that is, **\$175.00 per well per month for drilling wells and all other operations on a labor payroll basis.**

12. Administrative Overhead

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

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
<u>Unitized Formation</u>	\$175	\$40/well/month		

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

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

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

N O N E

14. Other Expenditures

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

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

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

2. Material Furnished by Operator

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

A. New Material (Condition "A")

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

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

5. Operator's Exclusively Owned Facilities

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

- A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.
- B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates should generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint 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 and tractor rates may 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. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.
- D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.
- E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

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

1. Material Purchased by the Operator or Non-Operator

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

2. Division in Kind

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

3. Sales to Outsiders

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from 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 one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

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

A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or

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

4. Other Used Material

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

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

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

5. Bad-Order Material

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

6. Junk

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

7. Temporarily Used Material

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

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

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

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

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

2. Reconciliation and Adjustment of Inventories

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

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

3. Special Inventories

Special 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.

EXHIBIT "E"

TO UNIT OPERATING AGREEMENT

WEST CAP QUEEN SAND UNIT

INSURANCE PROVISIONS

Unit Operator shall, in addition to the insurance provided for in Section 9, at all times while operations are conducted hereunder, purchase or provide insurance as follows for the benefit of the joint account of the parties hereto covering, where permissible, Working Interest Owners as additional interest insured:

- (1) Public Liability Insurance covering both bodily injury and death with limits of not less than \$100,000 as to any one person, and \$200,000 as to any one accident, and Property Damage Liability Insurance with a limit of not less than \$50,000 per accident.
- (2) Automotive Public Liability Insurance with bodily injury limits of not less than \$100,000 as to any one person and \$200,000 as to any one accident, and Automotive Property Damage Insurance with limit of not less than \$50,000 as to any one accident.

Neither fire, explosion, windstorm nor other property hazard insurance nor underground damage liability insurance shall be provided by Unit Operator for the benefit of the joint interest of the parties hereto.

The premiums paid for insurance referred to in Paragraph (1) shall be a proper charge to the joint account.

It is further understood and agreed that the Unit Operator is not a warrantor of the financial responsibility of the insurer with whom such insurance is carried, and that except for willful negligence Unit Operator shall not be liable to Working Interest Owners for any loss suffered on account of the insufficiency of the insurance carried, or of insurer with whom carried. Unit Operator shall not be liable to Working Interest Owners for any loss accruing by reason of Unit Operator's inability to procure or maintain the insurance above mentioned. Unit Operator agrees that if at any time during the life of this agreement it is unable to obtain or maintain such insurance it shall immediately notify, in writing, Working Interest Owners of such fact.

EXHIBIT "C"
TO UNIT OPERATING AGREEMENT
WEST CAP QUEEN SAND UNIT

TRACT PRIMARY AND SECONDARY PARTICIPATIONS

<u>Tract No.</u>	<u>Primary</u>	<u>Secondary</u>
1	2.70741	3.87720
2	8.84308	10.13479
3	1.08712	1.95364
4	17.10224	19.18434
5	4.80094	7.48082
6	3.96125	4.81608
7	7.49948	11.52992
8	4.75124	3.92120
9	13.73974	10.81548
10	17.49573	16.11007
11	18.01177	10.17646
TOTAL	100.00000	100.00000

EXHIBIT "F"
 Summary of Working Interest Ownership
 By Individuals and Companies

	Tract No.	Per Cent Working Interest	Tract Per Cent Participation		Owners Per Cent Participation in Unit	
			Primary	Secondary	Primary	Secondary
Premier Title & Mortgage Co., Trustee	5	4.340	4.80094	7.48082	0.20836	0.32467
John B. Rich	11	1.458	18.01177	10.17646	0.26261	0.14837
R. S. Rogers	8	5.000	4.75124	3.92120	0.23757	0.19607
Wm. G. Ross	8	12.500	4.75124	3.92120	0.59391	0.49015
Sinclair Oil & Gas Company	2	100.000	8.84308	10.13479	8.84308	10.13479
Tidewater Oil Company	7	100.000	7.49948	11.52992	7.49948	11.52992
L. C. White	8	5.000	4.75124	3.92120	0.23757	0.19607
Chas. H. Wood	8	12.500	4.75124	3.92120	0.59391	0.49015
TOTAL					100.00000	100.00000