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BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

APPLICATION OF KEWANEE OIL COMPANY }
FOR APPROVAL OF THE ATOKA-GRAYBURG }
UNIT, EDDY COUNTY, NEW MEXICO }

No. 3257

A P P L I C A T I O N

Comes now Kewanee Oil Company by its attorneys and applies to the New Mexico Oil Conservation Commission for approval of the Atoka-Grayburg Unit, Eddy County, New Mexico, and in support of its application states:

1. Attached to and made a part of this application is a copy of the Atoka-Grayburg Unit Agreement covering the following described lands in T. 18 S., R. 26 E., Eddy County, New Mexico:

Section 13: $W\frac{1}{2}NE\frac{1}{4}$, $NW\frac{1}{4}SE\frac{1}{4}$, $N\frac{1}{2}SW\frac{1}{4}$, $NW\frac{1}{4}$.

Section 14: $E\frac{1}{2}NE\frac{1}{4}$, $SW\frac{1}{4}NE\frac{1}{4}$, $N\frac{1}{2}SE\frac{1}{4}$.

2. The Atoka-Grayburg Unit covers only the Unitized Formation as that term is defined in Article 1, Section 1.2 of the Agreement as follows:

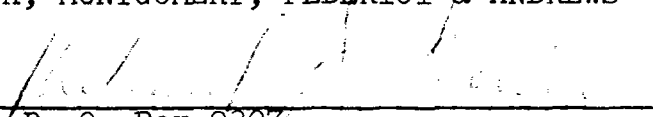
"1.2 Unitized Formation means that subsurface portion of the Unit Area commonly known as the Grayburg Formation, which formation is encountered between the subsurface depths of 740 feet and 1100 feet in Kewanee Oil Company's Leavitt 'S' No. 6 well (originally drilled as Illamex Oil, Inc. Leavitt No. 6 well) located 1650 feet from North and West Lines, Section 13, T 18 S, R 26 E, Eddy County, New Mexico, as shown on the Welex Radioactivity Log of said well dated November 17, 1957."

3. Formation and approval of the Atoka-Grayburg Unit will facilitate the secondary recovery project proposed by applicant in the unit area; by separate application applicant seeks approval of a waterflood project in this area.

4. Formation and approval of the Atoka-Grayburg Unit will prevent waste and protect correlative rights.

WHEREFORE, Kewanee Oil Company requests that this application be set for hearing before the Commission or one of its examiners and that the Commission enter its order approving this application.

SETH, MONTGOMERY, FEDERICI & ANDREWS

By 

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Santa Fe, New Mexico
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UNIT AGREEMENT
ATOKA GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

BEFORE EXAMINER UTZ	
OIL CONSERVATION COMMISSION	
<i>Appe</i>	EXHIBIT NO. <u>1</u>
CASE NO.	<u>3289</u>

UNIT AGREEMENT
ATOKA GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

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UNIT AGREEMENT
ATOKA GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of January, 1965,
by the parties who have signed the original of this instrument, a counter-
part thereof, or other instrument agreeing to be bound by the provisions
hereof.

WITNESSETH

WHEREAS, in the interest of the public welfare and to promote
conservation and increase the ultimate recovery of oil, gas, and associated
minerals from the Atoka Grayburg Field, in Eddy County, New Mexico, and
to protect the rights of the owners of interest therein, it is deemed necessary
and desirable to enter into this agreement to unitize the Oil and Gas Rights
in and to the Unitized Formation in order to conduct a secondary recovery
pressure maintenance, or other recovery program as herein provided;

NOW, THEREFORE, in consideration of the premises and of the
mutual agreements herein contained, it is agreed as follows:

ARTICLE 1

DEFINITIONS

As used in this agreement, the terms herein contained shall have the
following meaning:

1.1 Unit Area means the lands described by Tracts in Exhibit A and
shown on Exhibit B as to which this agreement becomes effective or to which
it may be extended as herein provided.

1.2 Unitized Formation means that subsurface portion of the Unit
Area commonly known as the Grayburg Formation, which formation is
encountered between the subsurface depths of 740 feet and 1100 feet in
Kewanee Oil Company's Leavitt "S" No. 6 well (originally drilled as
Illamex Oil, Inc. Leavitt No. 6 well) located 1650 feet from North and
West Lines, Section 13, T 18 S, R 26 E, Eddy County, New Mexico, as
shown on the Welx Radioactivity Log of said well dated November 17, 1957.

1.3	<u>Unitized Substances</u> means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.	1 2 3 4
1.4	<u>Working Interest</u> 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.	5 6 7 8 9
1.5	<u>Royalty Interest</u> means a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.	10 11
1.6	<u>Royalty Owner</u> means a party hereto who owns a Royalty Interest.	12
1.7	<u>Working Interest Owner</u> 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.	13 14 15 16 17 18
1.8	<u>Tract</u> means each parcel of land described as such and given a Tract number in Exhibit A.	19 20
1.9	<u>Unit Operating Agreement</u> means the agreement entitled "Unit Operating Agreement, Atoka Grayburg Unit, Eddy County, New Mexico", of the same effective date as the effective date of this agreement, and which is entered into by Working Interest Owners.	21 22 23 24
1.10	<u>Unit Operator</u> means the Working Interest Owner designated by Working Interest Owners under the Unit Operating Agreement to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.	25 26 27 28
1.11	<u>Tract Participation</u> means the percentage shown on Exhibit A for allocating Unitized Substances to a Tract under this agreement.	29 30
1.12	<u>Unit Participation</u> of each Working Interest Owner means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.	31 32 33

1.13 <u>Outside Substances</u> means all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.	1 2 3
1.14 <u>Oil and Gas Rights</u> means the right to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.	4 5 6
1.15 <u>Unit Operations</u> means all operations conducted by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of the development and operation of the Unitized Formation for the production of Unitized Substances.	7 8 9 10
1.16 <u>Unit Equipment</u> means all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.	11 12 13
1.17 <u>Unit Expense</u> means all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of Unit Operations.	14 15 16
1.18 Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural include the singular, and the neuter gender include the masculine and the feminine.	17 18 19
1.19 <u>Productive Acre-Feet</u> means the volume of Unitized Formation containing Unitized Substances; provided that, only that portion of the Unitized Formation containing Unitized Substances and having porosity of eight percent (8%) or more and permeability of one-tenth of one millidarcy (0.1 md) or more shall be used in determining the Productive Acre-Feet underlying each Tract.	20 21 22 23 24 25
ARTICLE 2	26
EXHIBITS	27
2.1 <u>Exhibits</u> . Attached hereto are the following exhibits which are incorporated herein by reference:	28 29
2.1.1 <u>Exhibit A</u> , which is a schedule that describes each Tract in the Unit Area and shows its Tract Participation.	30 31
2.1.2 <u>Exhibit B</u> , which is a map that shows the boundary lines of the Unit Area and the Tracts therein.	32 33

2.2 Reference to Exhibits. When reference herein is made to an exhibit, the reference is to the Exhibit as originally attached or, if revised, to the latest revision.

2.3 Exhibits Considered Correct. An exhibit shall be considered to be correct until revised as herein provided.

2.4 Correcting Errors. The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit.

2.5 Filing Revised Exhibits. If an exhibit is revised pursuant to this agreement, Unit Operator shall certify and file the revised exhibit for record in the County in which this agreement is filed.

ARTICLE 3

CREATION AND EFFECT OF UNIT

3.1 Oil and Gas Rights Unitized. Subject to the provisions of this agreement, all Oil and Gas Rights of Royalty Owners in and to the lands described in Exhibit A, and all Oil and Gas Rights of Working Interest Owners in and to said lands, are hereby unitized insofar as the respective Oil and Gas Rights pertain to the Unitized Formation, so that operations may be conducted as if the Unitized Formation had been included in a single lease executed by all Royalty Owners, as lessors, in favor of all Working Interest Owners, as lessees, and as if the lease had been subject to all of the provisions of this agreement.

3.2 Personal Property Excepted. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

3.3 Amendment of Leases and Other Agreements. The provisions of
the various leases, agreements, division and transfer orders, or other instru-
ments covering the respective Tracts or the production therefrom are amended
to the extent necessary to make them conform to the provisions of this agree-
ment, but otherwise shall remain in effect.

3.4 Continuation of Leases and Term Royalties. Operations, including
drilling operations, conducted with respect to the Unitized Formation on any
part of the Unit Area, or production from any part of the Unitized Formation,
except for the purpose of determining payments to Royalty Owners, shall be
considered as operations upon or production from each Tract, and such
operations or production shall continue in effect each lease or term royalty
interest as to all lands covered thereby just as if such operations had been
conducted and a well had been drilled on and was producing from each Tract.

3.5 Titles Unaffected by Unitization. Nothing herein shall be construed
to result in the transfer of title to the Oil and Gas Rights by any party hereto
to any other party or to Unit Operator. The intention is to provide for the
cooperative development and operation of the Tracts and for the sharing of
Unitized Substances as herein provided.

3.6 Injection Rights. Royalty Owners hereby grant unto Working
Interest Owners the right to inject into the Unitized Formation any substances
in whatever amounts Working Interest Owners deem expedient for Unit
Operations, including the right to drill and maintain injection wells on the
Unit Area and to use producing or abandoned oil or gas wells for such purposes.

3.7 Development Obligation. Nothing herein shall relieve Working
Interest Owners from the obligation to develop reasonably as a whole the lands
and leases committed hereto.

ARTICLE 4 27

PLAN OF OPERATIONS 28

4.1 Unit Operator. Working Interest Owners are, as of the effective
date of this agreement, entering into the Unit Operating Agreement
designating Kewanee Oil Company as Unit Operator. Unit Operator shall have
the exclusive right to conduct Unit Operations. The operations shall conform
to the provisions of this agreement and the Unit Operating Agreement. If
there is any conflict between such agreements, this agreement shall govern.

4.2 Operating Methods. To the end that the quantity of Unitized Substances ultimately recoverable may be increased and waste prevented, Working Interest Owners shall, with diligence and in accordance with good engineering and production practices, engage in secondary recovery operations by injecting into the Unitized Formation gas, water or other fluids or combinations thereof deemed necessary or desirable to efficiently and economically increase the ultimate recovery of Unitized Substances.

4.3 Change of Operating Methods. Nothing herein shall prevent Working Interest Owners from discontinuing or changing in whole or in part any method of operation which, in their opinion, is no longer in accord with good engineering or production practices. Other methods of operation may be conducted or changes may be made by Working Interest Owners from time to time if determined by them to be feasible, necessary, or desirable to increase the ultimate recovery of Unitized Substances.

ARTICLE 5 15

TRACT PARTICIPATION 16

5.1 Tract Participation. Each Tract in the Unit Area is listed numerically in Exhibit A and the Tract Participation for each Tract is also shown in Exhibit A. The formula for determining Tract Participation is shown below as follows:

$$\text{Tract Participation} = 100\% \cdot \frac{A}{B} \quad 21$$

where: A = Productive Acre-Feet of Unitized Formation under each Tract. 22
23

B = Total Productive Acre-Feet of Unitized Formation under all Tracts. 24
25

5.2 Relative Tract Participations. If the Unit Area is enlarged or reduced, the revised Tract Participations of the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another. 26
27
28
29

ARTICLE 6 30

ALLOCATION OF UNITIZED SUBSTANCES 31

6.1 Allocation to Tracts. All Unitized Substances produced and saved shall be allocated to the several Tracts in accordance with the respective Tract Participations effective during the period that the Unitized 32
33
34

Substances were produced. The amount of Unitized Substances allocated to each Tract, regardless of whether it is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

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

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

6.2.2 If any Oil and Gas Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

6.3 Taking Unitized Substances in Kind. 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. Such parties shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained, and operated as not to interfere with Unit Operations. 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 receiving party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of the Unitized Substances.

6.4 Failure to Take in Kind. If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall

have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the market price prevailing in the area and not less than the price Unit Operator receives for its share of Unitized Substances; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

6.5 Responsibility for Royalty Settlements. Any party receiving in kind or separately disposing of all or part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for the payment thereof to the persons entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

6.6 Royalty on Outside Substances. If any Outside Substances consisting of natural gases are injected into the unitized formation, fifty percent (50%) of any like substances contained in Unitized Substances subsequently produced and sold, or used for other than operations hereunder, shall be deemed to be Outside Substances until the aggregate of said fifty percent (50%) equals the accumulated volume of such natural gases injected into the Unitized Formation, and no payments shall be due or payable to Royalty Owners on said fifty percent (50%). If the Outside substances injected be liquefied petroleum gases, or other liquid hydrocarbons, as distinguished from natural gases prior to injection, the Working Interest Owners shall have the right, beginning one (1) year after injection of such liquefied petroleum gases is commenced, to recover all such hydrocarbons without payment of royalty. To provide a reasonable and practical basis of accounting for the same, it is agreed that ten percent (10%) of the entire production produced and sold from the Unitized Formation shall be deemed to be Outside Substances until the aggregate value of said ten percent (10%) of said production equals the entire accumulated cost to the Working Interest Owners of such Outside Substances.

ARTICLE 7

PRODUCTION AS OF THE EFFECTIVE DATE

7.1 Oil in Lease Tanks. Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced

from the Unitized Formation in such tanks, above the pipe line connections, 1
as of 7:00 a.m. on the effective date hereof. The oil that is a part of the 2
prior allowable of the wells from which it was produced shall remain the 3
property of the parties entitled thereto the same as if the Unit had not been 4
formed. Any such oil not promptly removed may be sold by the Unit Operator 5
for the account of the parties entitled thereto, subject to the payment of all 6
royalties, overriding royalties, production payments, and all other payments 7
under the provisions of the applicable lease or other contracts. The oil that 8
is in excess of the prior allowable of the wells from which it was produced 9
shall be regarded as Unitized Substances produced after effective date hereof. 10

7.2 Overproduction. If, as of the effective date hereof, any Tract is 11
overproduced with respect to the allowable of the wells on that Tract and the 12
amount of overproduction has been sold or otherwise disposed of, such over- 13
production shall be regarded as a part of the Unitized Substances produced 14
after the effective date hereof and shall be charged to such Tract as having 15
been delivered to the parties entitled to Unitized Substances allocated to such 16
Tract. 17

ARTICLE 8 18

USE OR LOSS OF UNITIZED SUBSTANCES 19

8.1 Use of Unitized Substances. Working Interest Owners may use as 20
much of the Unitized Substances as they deem necessary for Unit Operations, 21
including but not limited to the injection thereof into the Unitized Formation. 22

8.2 Royalty Payments. No royalty, overriding royalty, production, 23
or other payments shall be payable upon, or with respect to, Unitized 24
Substances used or consumed in Unit Operations, or which otherwise may be 25
lost or consumed in the production, handling, treating, transportation, or 26
storing of Unitized Substances. 27

ARTICLE 9 28

TRACTS TO BE INCLUDED IN UNIT 29

9.1 Qualification of Tracts. On and after the effective date hereof 30
and until the enlargement or reduction thereof, the Unit Area shall be com- 31
posed of the Tracts listed in Exhibit A that corner or have a common 32
boundary (Tracts separated only by a public highway or a railroad right 33
of way shall be considered to have a common boundary), and that otherwise 34
qualify as follows: 35

9.1.1 Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this agreement and as to which Royalty Owners owning sixty-five percent (65%) or more of the Royalty Interest have become parties to this agreement.	1 2 3 4 5
9.1.2 Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this agreement, and as to which Royalty Owners owning less than Sixty-five percent (65%) of the Royalty Interest have become parties to this agreement, and as to which the Working Interest Owners in such Tract have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns against a portion of all claims and demands that may be made by nonsubscribing owners of Royalty Interest in such Tract on account of the inclusion of the Tract in the Unit Area. The portion of such claims and demands covered by the indemnity shall, as to each such Tract, be the fraction thereof in which the numerator is the difference between the percentage of the Royalty Interest signed and sixty-five percent (65%) of the Royalty Interest in the Tract; and the denominator is the difference between the percentage Royalty Interest signed and one hundred percent (100%) of the Royalty Interest in the Tract.	6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22
9.1.3 Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this agreement; and Royalty Owners owning sixty-five percent (65%) or more of the Royalty Interest have become parties to this agreement, or the indemnity with reference to the claims of non-subscribing owners of Royalty Interest on such Tract is given under the provisions of Section 9.1.2; and as to which (a) the Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have become parties to this agreement have joined in a request for inclusion of such Tract in the Unit Area, and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such Tract who are not parties to this agreement and which arise out of the inclusion of the Tract in the Unit Area; and as to which (b) seventy-five percent (75%) of the combined voting interest of the Working Interest Owners in all Tracts that meet the requirements of Sections 9.1.1 and 9.1.2 have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. For the purposes of this Section 9.1.3, the voting interest	23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42

of each Working Interest Owner shall be equal to the ratio that its Unit Participation attributable to Tracts that qualify under Sections 9.1.1 and 9.1.2 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Sections 9.1.1 and 9.1.2. Upon the inclusion of such a Tract in the Unit Area, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, in proportion to their respective Working Interest in the Tract.

9.2 Determination of Ownership and Location. For the purposes of Section 9.1, determinations concerning ownership of Royalty Interests and Working Interests in the several Tracts and location of the Tracts with respect to one another shall be made in such manner as Working Interest Owners determine to be suitable. Tracts included in the Unit Area on the basis of such determinations shall be deemed validly included therein notwithstanding any errors that may have occurred in the making of such determinations, but a Tract erroneously included shall be subject to exclusion in accordance with Section 10.1. Inclusion of a Tract in the Unit Area shall not preclude any party hereto from questioning the title of any other party to any interest claimed by such other party in such Tract.

9.3 Subsequent Commitment of Interest or Tract to Unit. In the event any interest, Tract, or Tracts within the Unit Area fails to qualify for inclusion in accordance with Sections 9.1.1, 9.1.2, or 9.1.3, but within six (6) months following the effective date of said Unit Agreement, does qualify as provided in said Sections, such interest, Tract, or Tracts so qualifying may be admitted, upon the request of the affected Working Interest Owners, to the Unit Area on the basis of participation as originally provided in this agreement. After said six (6) months period, the commitment of any interest or Tract to the Unit Area shall be upon such terms and conditions as may be negotiated by Working Interest Owners and the owner, or owners, of such interest or Tract.

9.4 Acquisition of Interest. In the event at any time after the effective date hereof any party bound by this agreement acquires an uncommitted interest in any Tract included within the Unit Area, such interest upon being so acquired shall be subject to this agreement and, where the interest acquired is a Working Interest, shall also be subject to the Unit Operating Agreement.

9.5 Revision of Exhibits. If any of the Tracts described in Exhibit A fail to qualify for inclusion in the Unit Area, Unit Operator shall recompute,

using the original basis of computation, the Tract Participation of each of the qualifying Tracts, and shall revise Exhibits A and B accordingly. The revised exhibits shall be effective as of the effective date hereof.

ARTICLE 10

TITLES

10.1 Removal of Tract from Unit Area. If a Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this agreement to meet the conditions of Article 9 because of failure of title of any party hereto, such Tract shall be removed from the Unit Area effective as of the first day of the calendar month in which the failure of title is finally determined; however, the Tract shall not be removed from the Unit Area if, within ninety (90) days of the date of final determination of the failure of title, the Tract requalifies under a Section of Article 9.

10.2 Revision of Exhibits. If a Tract is removed from the Unit Area because of the failure of title, Unit Operator, subject to Section 5.2, shall recompute the Tract Participation of each of the Tracts remaining in the Unit Area and shall revise Exhibits A and B accordingly. The revised exhibits shall be effective as of the first day of the calendar month in which such failure of title is finally determined.

10.3 Working Interest Titles. If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of the failure of title shall be governed by the Unit Operating Agreement.

10.4 Royalty Owner Titles. If title to a Royalty Interest fails, but the Tract to which it relates is not removed from the Unit Area, the party whose title failed shall not be entitled to share hereunder with respect to such interest.

10.5 Production Where Title is in Dispute. If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the discretion of Working Interest Owners shall either:

(a) require that the party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid, furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto.

10.6 Payment of Taxes to Protect Title. The owners of (1) the surface rights to lands within the Unit Area, (2) the severed mineral or Royalty Interests in the lands, and (3) the improvements not utilized for Unit Operations, shall individually be responsible for the rendition and assessment for ad valorem tax purposes of all such property, and for the payment of such taxes, except as otherwise provided in any contract or agreement between such owners and a Working Interest Owner. If any ad valorem taxes are not paid by such owner responsible therefor when due, Unit Operator may, with approval of Working Interest Owners, at any time prior to tax sale, or expiration of period of redemption after tax sale, pay the same, redeem such property, and discharge such tax liens as may arise through non-payment. Any such payment shall be treated as an item of Unit Expense. Unit Operator shall, if possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due to any delinquent taxpayer or taxpayers an amount sufficient to defray the costs of such payment or redemption, such withholding to be credited to the joint account. Such withholding shall be without prejudice to any other remedy, either at law or at equity, which may be available for exercise by the Unit Operator or by the Working Interest Owners.

ARTICLE 11

EASEMENTS OR USE OF SURFACE

11.1 Grant of Easements. The parties hereto, to the extent of their rights and interests, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the Unit Area as may reasonably be necessary for Unit Operations; provided that, nothing herein shall be construed as leasing or otherwise conveying to Working Interest Owners a site for a water, gas injection, processing or other plant, or camp site.

11.2 Use of Water. Working Interest Owners shall have free use of water from the Unit Area for Unit Operations except that the use of fresh water for injection purposes shall be governed by separate contracts and agreements made and entered into by and between Unit Operator and the owner or owners of water rights subject, however, to approval by the State

Engineer. Nothing herein contained shall be construed as a relinquishment by the Working Interest Owners of any rights granted to them under the provisions of the various leases covering the respective tracts insofar as they pertain to the use of water.

11.3 Surface Damages. Working Interest Owners shall pay the rightful owners who are parties to this agreement for damages to growing crops, timber, fences, improvements, and structures on the Unit Area that result from Unit Operations.

ARTICLE 12

ENLARGEMENTS OF UNIT AREA

12.1 Enlargements of Unit Area. The Unit Area may be enlarged to include acreage reasonably proved to be productive of Unitized Substances, upon such terms as may be determined by Working Interest Owners, including but not limited to, the following:

12.1.1 The acreage shall qualify under a Section of Article 9.

12.1.2 The participation to be allocated to the acreage shall be reasonable, fair, and based on all available information.

12.1.3 There shall be no retroactive allocation or adjustment of operating expenses or of interests in the Unitized Substances produced, or proceeds thereof; however, this limitation shall not prevent an adjustment of investment, including intangible investment, by reason of the enlargement.

12.1.4 The execution or ratification of this agreement by a person owning a Royalty Interest in any acreage being brought into the Unit Area by an enlargement shall have the effect of committing to the Unit all of the Royalty Interest of such person in such acreage being added to the Unit Area as well as the Royalty Interest of such person in any Tract previously included in the Unit Area.

12.2 Determination of Tract Participation. Unit Operator, subject to Section 5.2, shall determine the Tract Participation of each Tract within the Unit Area as enlarged, and shall revise Exhibits A and B accordingly.

12.3 Effective Date. The effective date of any enlargement of the Unit Area shall be 7:00 a.m. on the first day of the calendar month following

compliance with conditions for enlargement as specified by Working Interest Owners, approval of the enlargement by the appropriate governmental authority, if required, and the filing for record of revised Exhibits A and B in the records of the County in which this agreement is recorded.

ARTICLE 13

CHANGE OF TITLE

13.1 Covenant Running With the Land. This agreement shall extend to, be binding upon, and inure to the benefit of, the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

13.2 Notice of Transfer. Any conveyance of all or any part of any interest owned by any party hereto with respect to any Tract shall be made expressly subject to this agreement. No change of title shall be binding on the Unit Operator, or upon any party hereto other than the party so transferring, until the first day of the calendar month next succeeding the date of receipt by Unit Operator of a photocopy or a certified copy of the recorded instrument evidencing such change in ownership.

13.3 Waiver of Rights to Partition. Each party hereto covenants that, during the existence of this agreement, it will not resort to any action to partition the Unit Area or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

ARTICLE 14

RELATIONSHIP OF PARTIES

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

14.2 No Sharing of Market. This agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale, or marketing of Unitized Substances.

14.3 Royalty Owners Free of Costs. This agreement is not intended to impose, and shall not be construed to impose, upon any Royalty Owner any obligation to pay for Unit Expense unless such Royalty Owner is otherwise so obligated.

14.4 Information to Royalty Owners. Each Royalty Owner shall be entitled to all information in possession of Unit Operator to which such Royalty Owner is entitled by an existing agreement with any Working Interest Owner.

ARTICLE 15

LAWS AND REGULATIONS

15.1 Laws and Regulations. This agreement shall be subject to the conservation laws of the State of New Mexico; to the valid rules, regulations, and orders of the Conservation Commission of the State of New Mexico; and to all other applicable federal, state, and municipal laws, rules, regulations, and orders.

ARTICLE 16

FORCE MAJEURE

16.1 Force Majeure. All obligations imposed by this agreement on each party, except for the payment of money, shall be suspended while compliance is prevented, in whole or in part, by a strike, fire, war, civil disturbance, act of God; by federal, state or municipal laws; by any rule, regulation, or order of a governmental agency; by inability to secure materials; or by any other cause or causes beyond reasonable control of the party. No party shall be required against its will to adjust or settle any labor dispute. Neither this agreement nor any lease or other instrument subject hereto shall be terminated by reason of suspension of Unit Operations due to any one or more of the causes set forth in this Article.

ARTICLE 17

EFFECTIVE DATE

17.1 Effective Date. 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 qualification of Tracts comprising seventy-five percent (75%) or more of the Unit Area as shown on the original Exhibit B which have qualified under the provisions of Article 9, or a lesser Unit Area as may be formed by use of the procedure of Section 17.2;

(b) the approval of this agreement by the appropriate governmental authority if required;

(c) the filing for record by Unit Operator of at least one counterpart of this agreement in Eddy County, New Mexico;

and provided further that if (a), (b) and (c) above are not accomplished on or before January 1, 1966, 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 all Working Interest Owners who have executed this agreement have agreed, in writing, to form a Unit covering a lesser area as provided in Section 17.2 hereof, or Working Interest Owners owning a combined Unit Participation of at least seventy-five percent (75%) committed to this agreement have decided to extend said termination date for a period not to exceed twelve (12) months. If said termination date is so extended and (a), (b) and (c) above 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.

17.2 Election to Reduce Unit Area Prior to Effective Date. Working Interest Owners of Tracts qualifying hereunder may, prior to the effective date hereof, elect to form a lesser Unit composed of such Tracts less in area than one hundred percent (100%) of the total acreage within the Unit Area by an affirmative vote of at least ninety percent (90%) of the Working Interest Owners on a Unit Participation basis in the qualifying Tracts. The election to form a lesser Unit shall be evidenced by a written agreement between the Working Interest Owners so electing, which agreement shall designate the lands to be included in such lesser Unit Area and shall provide that this Unit Agreement shall be effective as to such lesser Unit area. Working Interest Owners joining therein shall revise Exhibits A and B attached hereto to conform to such lesser Unit Area so formed. Said exhibits, as so revised, shall be attached as exhibits to such election agreement and shall be filed for record by Unit Operator in Eddy County, New Mexico.

17.3 Certificate of Effectiveness. Unit Operator shall within thirty (30) days after the effective date of this agreement file for 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 book and page in which a counterpart of this agreement
has been recorded and the effective date. A copy of the certificate shall be
furnished to each Working Interest Owner and Royalty Owner.

ARTICLE 18

TERM

18.1 Term. The term of this agreement shall be for the time that
Unitized Substances are produced in paying quantities and as long thereafter
as Unit Operations are conducted without a cessation of more than ninety (90)
consecutive days, unless sooner terminated by Working Interest Owners in
the manner herein provided.

18.2 Termination by Working Interest Owners. This agreement may be
terminated by Working Interest Owners having a combined Unit Participation
of at least ninety percent (90%) whenever such Working Interest Owners
determine that Unit Operations are no longer profitable or feasible.

18.3 Effect of Termination. Upon termination of this agreement, the
further development and operation of the Unitized Formation as a Unit shall
be abandoned, Unit Operations shall cease, and thereafter the parties shall
be governed by the provisions of the leases and other instruments affecting
the separate Tracts. Upon termination of this agreement in the manner set
out herein, the Royalty Owners hereby agree to a ninety (90) day extension
of their leases and contracts covering the lands which were committed to the
Unit Area to permit the lessees holding such lands to resume operations
thereupon, and if so resumed, such lease or contract shall remain in force
and effect in accordance with the provisions thereof.

18.4 Salvaging Equipment Upon Termination. If not otherwise granted
by the leases or other instruments affecting each Tract unitized under this
agreement, Royalty Owners hereby grant Working Interest Owners a period
of six (6) months after the date of termination of this agreement within which
to salvage and remove Unit Equipment.

18.5 Certificate of Termination. Upon termination of this agreement as
provided in either Section 18.1 or Section 18.2 above, the Unit Operator shall
file for record in Eddy County, New Mexico, a certificate evidencing such
termination.

ARTICLE 19

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EXECUTION

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19.1 Separate Counterparts or Ratifications. This agreement may be executed in any number of counterparts and each executed counterpart 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 hereof and of adopting, by reference, all of the provisions hereof.

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19.2 Joinder in Dual Capacity. Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests that may be owned or controlled by such party.

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ARTICLE 20

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GENERAL

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20.1 Amendments Affecting Working Interest Owners. Amendments hereto relating wholly to Working Interest Owners may be made if signed by all Working Interest Owners.

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20.2 Lien of Unit Operator. Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

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IN WITNESS WHEREOF, the parties hereto have executed this agreement on the dates opposite their respective signatures.

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WORKING INTEREST OWNERS

Name

Date Signed

Attest - Corporation
Witness - Individual

CALIFORNIA OIL COMPANY

By _____
Attorney in Fact

By _____
Attorney in Fact

WORKING INTEREST OWNERS (Continued)

<u>Name</u>	<u>Date Signed</u>	<u>Attest - Corporation</u> <u>Witness - Individual</u>
KEWANEE OIL COMPANY		ATTEST:
By _____ Vice President	_____	By _____ Assistant Secretary

PRODUCTION PAYMENT OR OTHER OWNERS

<u>Name</u>	<u>Date Signed</u>	<u>Attest - Corporation</u> <u>Witness - Individual</u>
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO		ATTEST:
By _____	_____	By _____
MARTH OIL COMPANY		ATTEST:
By _____	_____	By _____

ROYALTY OWNERS

<u>Name</u>	<u>Date Signed</u>	<u>Witness</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

STATE OF OKLAHOMA)
)
COUNTY OF TULSA)

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by J. M. Harbison, Vice President of KEWANEE OIL COMPANY, a corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____ as Attorney in Fact on behalf of CALIFORNIA OIL COMPANY, a corporation.

Notary Public

My Commission Expires:

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____ as Attorney in Fact on behalf of CALIFORNIA OIL COMPANY, a corporation.

Notary Public

My Commission Expires:

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day
of _____, 1965, by _____,
President of CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST
COMPANY OF CHICAGO, a corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

STATE OF ILLINOIS)
) SS
COUNTY OF COOK)

I, the undersigned, a notary public in and for said County, in the State
aforesaid, do hereby certify that GERALD MARTH, personally known to me to
be the Sole General Partner of MARTH OIL CO., a limited partnership, whose
name is subscribed to the foregoing instrument, appeared before me this day
in person and acknowledged that he signed and delivered the said instrument
as the free and voluntary act of said partnership, and as his free and voluntary
act, for the uses and purposes therein set forth.

In Witness Whereof, I have set my hand and seal this _____ day of
_____, 1965.

Notary Public

My Commission Expires:

EXHIBIT A
TO
UNIT AGREEMENT
ATOKA GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

<u>Tract Number</u>	<u>Tract Operator</u>	<u>Description of Acreage (All located in T 18S, R 26E, Eddy County, New Mexico)</u>	<u>Tract Participation Percentage</u>
1	Kewanee Oil Company	SW/4 NE/4 Section 14	1.2556
2	Kewanee Oil Company	NW/4 Section 13 and E/2 NE/4 Section 14	79.6008
3	Kewanee Oil Company	NW/4 SE/4 Section 14	0.1288
4	Kewanee Oil Company	NW/4 SW/4 Section 13 and NE/4 SE/4 Section 14	7.5918
5	Kewanee Oil Company	NE/4 SW/4 and NW/4 SE/4 Section 13	0.7920
6	California Oil Company	W/2 NE/4 Section 13	<u>10.6310</u>
UNIT TOTAL			100.0000

R27E

T oo S



EXHIBIT B
TO







ABD. GAS WELL
 WATER INPUT WELL
 WTR SUPPLY WELL
 SALT WTR. DISPOSAL
 GRAYBURG WELL

UNIT AGREEMENT
ATOKA GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO