

BEFORE THE OIL CONSERVATION COMMISSION OF
NEW MEXICO

IN THE MATTER OF THE APPLICATION OF
SOCONY-MOBIL OIL COMPANY, INC. FOR
APPROVAL OF UNIT AGREEMENT FOR THE
DENTON NORTH WOLFCAMP UNIT, LEA
COUNTY, NEW MEXICO.

Case No. 3339

APPLICATION

1. Socony-Mobil Oil Company, Inc. hereby requests approval of Unit Agreement for the operation of the Denton North Wolfcamp Unit. The Unit Agreement contemplates the operation of a water-flood project within the Unit area described, as follows:

Township 14 South, Range 37 East

Section 23: S/2 S/2

Section 25: SW/4 NE/4; S/2 NW/4; NW/4 NW/4; SW/4;
W/2 SE/4

Section 26: All

Section 27: E/2 E/2

Section 34: E/2 E/2

Section 35: All

Section 36: W/2; W/2 E/2

containing 2,640 acres, more or less, in Lea County,
New Mexico.

2. Attached hereto is a copy of the proposed Unit Agreement, including a plat of the proposed Unit area and a tabulation of ownership of various interests in the Leases and lands within the Unit area.

Respectfully submitted,

SOCONY-MOBIL OIL COMPANY, INC.

By James E. [Signature]

Modrall, Seymour, Sperling, Roehl & Harris
Its Attorneys
1200 Simms Building, Post Office Box 466
Albuquerque, New Mexico

65 OCT 29

MAIN

DOCKET MAILED

Date 11-10-65

**UNIT AGREEMENT
FOR THE
DEVELOPMENT & OPERATION
OF THE
DENTON NORTH WOLFCAMP UNIT
Lea County, New Mexico**

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
DENTON NORTH WOLFCAMP UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the first day of February, 1965 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 subject to this agreement; and

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

WHEREAS, the 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 co-operative 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 interest in the Denton North Wolfcamp Unit covering the land hereinafter described to give reasonably effective control of operation therein; and

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

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

SECTION 1

ENABLING ACT AND REGULATIONS

The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid, pertinent regulations, including operating and Unit plan regulations, heretofore issued thereunder and valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

SECTION 2

UNIT AREA AND DEFINITIONS

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

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

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

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

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

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

(f) Supervisor is defined as the Oil and Gas Supervisor of the United States Geological Survey.

(g) Wolfcamp Formation is defined and shall mean that heretofore established underground reservoir, the top of which is found at 9180 feet, and the base of which is found at 9860 feet, on the Schlumberger Well Surveying Corporation Electric Log dated July 29, 1953, of the Socony Mobil Oil Company, Inc., T. D. Pope Well No. 10 located 660 feet from the East line and 660 feet from the South line of Section 26, Township 14 South, Range 37 East, United States Public Land Survey, Lea County, New Mexico.

(h) Unitized Formation is defined as that subsurface portion of the Unit Area defined hereinabove as the Wolfcamp Formation effectively committed to this Agreement.

(i) Unitized Substances is defined as and shall mean all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquids or liquefiable hydrocarbons within or produced from the Unitized Formation.

(j) Working Interest is defined as the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, or otherwise held. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.

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

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

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

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

(o) Tract Participation means the percentage shown on Exhibit "B" for allocating Unitized Substances to a Tract under this agreement.

(p) Unit Participation 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.

(q) Unit Equipment means all personal equipment, lease and well equipment, plus all other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

(r) Unit Operations 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.

(s) Unit Expenses means all costs, expenses and 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.

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

(u) Paying Quantities is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells on the unitized land.

(v) Phase I is defined as that period of time until the total amount of oil produced from the Unitized Formation from and after June 1, 1964, equals three million barrels. For all purposes of this agreement the date of termination of Phase I shall be the last day of the month in which such amount of oil is produced.

(w) Phase II is defined as the remainder of the term of this agreement after the termination of Phase I.

(x) Tract Remaining Primary Reserves is defined as the number of barrels of oil heretofore approved by the Working Interest Owners as the estimated economic remaining primary oil reserves as of June 1, 1964 of such Tract.

(y) Unit Area Remaining Primary Reserves is defined as the summation of the Tract Remaining Primary Reserves of those Tracts which are effectively committed to this agreement.

(z) Tract Ultimate Primary Recovery is defined as the total cumulative amount of oil produced from such Tract up to but not including June 1, 1964, as reported to the State Oil Conservation Commission plus the Tract Remaining Primary Reserves.

(aa) Unit Area Ultimate Primary Recovery is defined as the summation of the Tract Ultimate Primary Recovery of those Tracts which are effectively committed to this agreement.

(bb) Tract Current Production is defined as the number of barrels of oil produced from the Unitized Formation during the period from December 1, 1963 through May 31, 1964,

(cc) Unit Area Current Production is defined as the summation of the Tract Current Production of those Tracts which are effectively committed to this agreement.

SECTION 3

EXHIBITS

Exhibit "A" attached hereto is a map showing, to the extent known to the Unit Operator, the Unit Area and the boundaries and identity of Tracts and leases in said Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentage ownership of each Working Interest Owner in each Tract, and the percentage of participation each Tract has in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised or corrected by the Unit Operator whenever changes render such revision or correction necessary, and not less than six copies of such revision shall be filed with the Supervisor.

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 clerical, mechanical or mathematical 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 and with the Supervisor of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit.

SECTION 4

EXPANSION

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

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

(b) After preliminary concurrence by the Director, 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 ninety per cent (90%) of the Working Interest Owners (on the basis of Unit Participation during Phase II) have agreed to such Tract or Tracts being brought into the Unit, then Unit Operator shall:

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

(2) Deliver copies of said notice to the Director, 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 proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon expiration of said thirty (30) day period as set out in (2) immediately above and provided that objections of not more than ten per cent (10%) of the Working Interest Owners have been filed thereto, with the Director and the Commission the following: (a) comprehensive statement as to mailing such notice of expansion; (b) an application for such expansion; and (c) an instrument containing the appropriate joinders in compliance with the participation requirements of Section 13, infra.

The expansion shall, after due consideration of all pertinent information and upon approval by the Director and the Commission, become effective as of the date prescribed in the notice thereof or on such other date as set by the Director and the Commission in the order or instrument approving such expansion.

SECTION 5

UNITIZED LAND AND UNITIZED SUBSTANCES

All Unitized Substances in all of the hereinabove described and subsequently admitted land effectively committed to this agreement, insofar only as the same may be found in the Unitized Formation, together with the surface rights of ingress and egress, are unitized under the terms of this agreement and said land shall constitute land referred to herein as "Unitized Land" or "Land Subject to this agreement".

Nothing herein shall be construed to unitize, pool or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation.

SECTION 6

UNIT OPERATOR

Socony Mobil Oil Company, Inc., a New York corporation, is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator such reference means 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.

SECTION 7

RESIGNATION OR REMOVAL OF UNIT OPERATOR

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

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

The Unit Operator shall, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by seventy-five per cent (75%) of the committed Working Interest Owners (on the basis of Unit Participation during Phase II) exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Director.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books, and records, materials, appurtenances and any other assets, used in conducting the Unit Operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder for any liability or duties accruing or performance by it prior to the effective date of such resignation or removal.

SECTION 8

SUCCESSOR UNIT OPERATOR

Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall by affirmative vote of at least sixty-five per cent (65%) of their voting interests, based upon the percentages of participation during Phase II as shown on Exhibit "B", select a successor Unit Operator, provided, however, that should any Working Interest Owner own a voting interest of more than thirty-five per cent (35%), the vote or failure to vote of said party shall not serve to disapprove the selection of a new Unit Operator approved by eighty per cent (80%) or more of the voting interests of the remaining Working Interest Owners, and provided further that if the Unit Operator who has been removed fails to

vote or votes only to succeed himself, the voting interest of such removed Unit Operator shall not be considered for any purpose. 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 filed with the Supervisor. If no successor Unit Operator is selected and qualified as herein provided, the Director, at his election, may declare this agreement terminated.

SECTION 9

ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

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

SECTION 10

RIGHTS AND OBLIGATIONS OF UNIT OPERATOR

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

possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11

PLAN OF OPERATIONS

It is recognized and agreed by the parties hereto that all of the land subject to this agreement is reasonably proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this agreement is to formulate and to put into effect a pressure maintenance or a secondary recovery project in order to effect additional recovery or 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 and the Supervisor, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, and any other substance or a combination of any of said 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. After commencement of pressure maintenance or secondary operations, Unit Operator shall furnish the Supervisor monthly, injection and production reports for each well in the Unit. The Working Interest Owners and the Supervisor shall be furnished periodical reports on the progress of the plan of operation and any revisions or changes thereto; provided however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners and the Supervisor.

The initial plan of operation shall be filed with 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 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.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence pressure maintenance or secondary recovery operations on the Unit Area within a reasonable time after the effective date of this agreement, or any extension thereof approved by the Director, or this agreement shall terminate automatically, in which latter event Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 12

TRACT PARTICIPATION

In Exhibit "B" attached hereto, there are listed and numbered the various Tracts within the Unit Area and set forth opposite each Tract is a figure which represents the percentage of participation allocated to each Tract in the Unit Area during Phase I, and a figure which represents the percentage of participation allocated to each Tract in the Unit Area during Phase II. The formulas used for the calculation of such percentages of participation are as follows:

6-1-64

$$(a) \text{ Percentage Participation of Each Tract During Phase I} = 50\% \times \frac{\text{Tract Remaining Primary Reserve}}{\text{Unit Area Remaining Primary Reserve}} + 50\% \frac{\text{Tract Current Production}}{\text{Unit Area Current Production}}$$

$$(b) \text{ Percentage Participation of Each Tract During Phase II} = 90\% \times \frac{\text{Tract Primary Ultimate Recovery}}{\text{Unit Area Ultimate Primary Recovery}} + 10\% \frac{\text{Tract Total Acres}}{\text{Unit Area Total Acres}}$$

The percentages of participation set forth opposite each Tract in Exhibit "B" were calculated on the basis of one hundred per cent (100%) Tract commitment. If the Unit Agreement is approved with less than one hundred per cent (100%) Tract commitment, said percentages of participation shall be revised to fit the commitment status as of the effective date hereof, and thereafter, as needed pursuant to Section 14 (Allocation of Unitized Substances).

Phase I will effect until sum of 3,000,000 produced from

SECTION 13

TRACTS QUALIFIED FOR UNIT PARTICIPATION

On and after the effective date hereof the Tracts within the Unit Area which shall be entitled to participation (as provided in Section 12 hereof) in the production of Unitized Substances therefrom shall be those Tracts within the Unit Area that corner or have a common boundary (Tracts separated only by a public highway or a railroad right of way shall be considered to have a common boundary), and more particularly described in said Exhibit "B" that otherwise qualify as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest have become parties to this agreement and as to which Royalty Owners owning seventy-five per cent (75%) or more of the Royalty Interest have become parties to this agreement.

(b) Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest have become parties to this agreement, and as to which Royalty Owners owning less than seventy-five per cent (75%) of the Royalty Interest have become parties to this agreement, and 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 seventy-five per cent (75%) of the Royalty Interest in the Tract; and the denominator is the difference between the percentage of the Royalty Interest signed and one hundred per cent (100%) of the Royalty Interest in the Tract.

(c) Each Tract as to which Working Interest Owners owning less than one hundred per cent (100%) of the Working Interest have become parties to this agreement; and Royalty Owners owning seventy-five per cent (75%) or more of the Royalty Interest have become parties to this agreement, or the indemnity with reference to the claims of nonsubscribing owners of Royalty Interest on such Tract as given under the provisions of Paragraph (b) of this Section; and as to which (1) the Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have become parties to this agreement have joined in a request for inclusion of such Tract in the Unit Area, and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands that may be made by the owners of Working 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 (2) eighty-five per cent (85%) of the combined voting interest of the Working Interest Owners in all Tracts that meet the requirements of Paragraphs (a) and (b) of this Section have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. For the purposes of this Paragraph (c), the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) that its Phase II Unit Participation attributable to Tracts that qualify under Paragraphs (a) and (b) of this Section bears to the total Phase II Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Paragraphs (a) and (b) of this Section.

(d) Each Tract, regardless of the percentage of Working Interest or Royalty Interest therein that has been committed hereto, and as to which (1) the Working Interest Owner who operates the Tract has become a party to this agreement and (2) Working Interest Owners having eighty-five per cent (85%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Paragraphs (a), (b), or (c) of this Section vote in favor of the inclusion of such Tract. For the purpose of this Paragraph (d), the voting interest of a Working Interest Owner shall be equal to the ratio (expressed in percentage) that its Phase II Unit Participation attributable to Tracts that qualify under Paragraphs (a), (b), or (c) of this Section bears to the total Phase II Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Paragraphs (a), (b), or (c) of this Section.

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 Director, file therewith a schedule of those Tracts which have been committed and made subject to this agreement and are entitled to participate in the production from the Unit Area hereunder. Said schedule shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the percentages of participation of such Tract which shall be computed according to the participation formula set out in Section 12 (Tract Participation) above. This schedule of participation shall be a part of Exhibit "B" and upon approval thereof by the 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 Director.

SECTION 14

ALLOCATION OF UNITIZED SUBSTANCES

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

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

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

No Tract committed to this agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances, and nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the joinder of any Tract.

If any Working Interest or Royalty Interest in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, 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.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on unitized land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 15 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unit Area currently as and when produced, then so long as such conditions continue, Unit Operator, for the account and at the expense of such party and in order to avoid curtailing the operation of the Unit Area, may sell or otherwise dispose of such production to itself or others on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such party shall be charged therewith as having received such production. The net proceeds,

if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner for payment to the parties thereto under existing contracts.

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

If, after the effective date of this agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Section 30 (Nonjoinder and Subsequent Joinder), or if any Tract is excluded from the Unit Area as provided for in Section 29 (Loss of Title), the schedules of participation as shown in Exhibit "B", subject to Section 12 (Tract Participation) or Section 30 (Nonjoinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and distributed to the Working Interest Owners and the Director to show the new percentages of participation of all the then effectively committed Tracts; and the revised schedules, upon approval by the Supervisor, shall govern all the allocation of production from and after the effective date thereof until a new schedule is filed and approved by the Director.

SECTION 15

ROYALTY SETTLEMENT

The United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their

leases, except that such Royalty shall be computed 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 use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan approved pursuant to Section 11 (Plan of Operations), a like amount of gas, less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation, Royalty free as to dry gas but not as to the products extracted therefrom; provided that such right of withdrawal shall terminate as of the effective date of termination of the Unit Agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the unitized land for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Supervisor, then commencing one year after the initial injection of such liquefied petroleum gases, ten per cent (10%) of all oil produced from the Unitized Formation and sold during any month shall be deemed to be such liquefied petroleum gases so injected and no payments shall be due or payable to Royalty Owners on said amounts of liquefied petroleum gases until the total value thereof equals the total costs of the liquefied petroleum gases so injected.

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

SECTION 16

RENTAL SETTLEMENT

Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing

contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof, due under their leases. Rental or minimum royalty for lands of the United States of America subject to this agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 17

CONSERVATION

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

SECTION 18

DRAINAGE

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

SECTION 19

LEASES AND CONTRACTS CONFORMED AND EXTENDED

The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal 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 of any Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

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

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

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such land remains committed hereto, or in the event actual drilling operations are commenced on unitized land, in accordance with the provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act Revision of 1960.

(f) The segregation of any Federal lease committed to this agreement is governed by the following provisions in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act of February 25,

1920, as amended by the Act of September 2, 1960, (74 Stat. 781, 784): "Any Federal lease heretofore or hereafter committed to any such plan (unit) 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."

SECTION 20

CLERICAL, MECHANICAL AND MATHEMATICAL ERRORS

It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any clerical, mechanical and mathematical errors which might exist in the pertinent exhibits to this agreement upon approval of the Supervisor and the Working Interest Owners.

SECTION 21

COVENANTS RUN WITH LAND

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

SECTION 22

EFFECTIVE DATE AND TERM

This agreement shall become binding upon each party as of the date such party signs the instrument by which it becomes a party hereto; and, unless sooner terminated as hereinafter provided, shall become effective as to qualified Tracts after approval by the Director at the time and

date as determined by the Working Interest Owners in all the qualified Tracts, and set forth in a certificate filed for record by Unit Operator in Lea County, New Mexico. The certificate shall also recite the percentage of the Unit Area represented by the Tracts qualified under Section 13, the book and page in which a counterpart of this agreement has been recorded, and the case number and order number of the order of approval by Governmental authority, if obtained. The certificate shall not be filed until after the following requirements have been met:

(a) Tracts comprising sixty per cent (60%) or more of the Unit Area as shown on the original Exhibit "B" have qualified under the provisions of Section 13.

(b) At least one counterpart of this agreement has been filed for record by Unit Operator in Lea County, New Mexico.

(c) If the requirements of Paragraphs (a) and (b) of this Section are not accomplished on or before January 1, 1966, this agreement shall ipso facto terminate on that date (hereinafter called "termination date" and thereafter be of no further effect, unless prior thereto three or more Working Interest Owners owning a combined Phase II Unit Participation of at least seventy-five per cent (75%) have become parties to this agreement and at least sixty-five per cent (65%) of such parties have decided to extend the termination date for a period not to exceed one year. If the termination date is so extended and the requirements of Paragraph (a) of this Section are not accomplished on or before the extended termination date, this agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect. For the purpose of this Section, Phase II Unit Participation shall be as shown on the original Exhibit "C" attached to the Unit Operating Agreement.

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 operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated with the approval of the Director by Working Interest Owners owning ninety per cent (90%) Unit Participation during Phase II whenever such Working Interest Owners determine that Unit Operations are no longer profitable, feasible or in the interest of conservation. Notice of any such termination shall be given by Unit Operator to all parties hereto.

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

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 23

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, at 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 privately-owned lands subject to this agreement as to the quantity and rate or production in the absence of specific written approval thereof by the Commission, and in no event to the rate of prospecting and development of privately-owned lands.

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

SECTION 24

NON-DISCRIMINATION

In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 301 (1) to (7) inclusive, of Executive Order 10925 as amended (28 F.R. 6485), which are hereby incorporated by reference in this agreement.

SECTION 25

APPEARANCES

Unit Operator shall have the right to appear for or on behalf of

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

SECTION 26

NOTICES

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

SECTION 27

NO WAIVER OF CERTAIN RIGHTS

Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

SECTION 28

UNAVOIDABLE DELAY

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

SECTION 29

LOSS OF TITLE

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

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

SECTION 30

NONJOINDER AND SUBSEQUENT JOINDER

Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Unit Agreement.

Any oil or gas interest in the lands in the Unit Area not committed hereto prior to submission of this agreement to the Director for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 13 (Tracts Qualified for Unit Participation) hereof, at any time up to the effective date hereof and for a period to and including sixty (60) days thereafter, on the same basis of participation as provided in said Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after sixty (60) days 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 (based upon the percentages of participation during Phase II). Such joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this agreement and the Unit Operating Agreement. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this agreement. Except as may be otherwise herein provided, subsequent joinder to this agreement shall be effective at 7:00 A.M. as of the first day of the month following the filing with the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this agreement, unless objection to such joinder by the Director is duly made within sixty (60) days after such filing.

SECTION 31

COUNTERPARTS

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

SECTION 32

TAXES

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

SECTION 33

CONFLICT OF SUPERVISION

Neither the Unit Operator nor the Working Interest Owners, nor

any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto and the Commission agree that all powers and authority vested in the Commission in and by any provisions of this agreement are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

SECTION 34

LIMITATION OF APPROVALS

Notwithstanding anything herein contained to the contrary, if no Federal lands are committed to this agreement, then no consents or approvals provided herein shall be required of the Department, the Secretary, the Director, or the Supervisor, and it shall not be necessary to file any instrument hereunder with said officers or agencies unless and until Federal lands are so committed to this agreement.

SECTION 35

BORDER AGREEMENTS

Subject to the approval of the Supervisor, the Unit Operator, with concurrence of sixty-five per cent (65%) of the Working Interest Owners, based upon the percentages of participation during Phase II, may enter into a border protection agreement or agreements with the Working Interest Owners of adjacent lands along the boundaries of the Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

SECTION 36

NO PARTNERSHIP

It is expressly agreed that the relation of the parties hereto

is that of independent contractors and nothing in this agreement contained, expressed or implied, or any operations conducted hereunder, shall create or be deemed to create a partnership or association between the parties hereto or any of them.

SECTION 37

OIL IN LEASE TANKAGE 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 in such tanks, above the pipe line connections, as of 7:00 A.M. on the effective date hereof. All such oil as is a part of the prior allowable of the well or wells from which the same was produced 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 may be sold by the Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty Owners under the terms and provisions of the applicable lease or leases and other contracts. All such oil and gas as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any Tract is overproduced with respect to the allowable of the well or wells on that Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

SECTION 38

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 subject to this agreement 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.

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

SOCONY MOBIL OIL COMPANY, INC.

Date: _____

By _____

Attorney in Fact
UNIT OPERATOR AND WORKING INTEREST
OWNER

THE STATE OF TEXAS

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared _____, as Attorney in Fact for SOCONY MOBIL OIL COMPANY, INC., known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed said instrument as the act of SOCONY MOBIL OIL COMPANY, INC., and for the purposes and consideration therein expressed.

Given under my hand and seal of office this _____ day of _____, A.D. 1965.

My Commission Expires: _____

Notary Public in and for
Midland County, Texas

THE STATE OF _____

COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared _____, as _____, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed said instrument as the act of _____, and for the purposes and consideration therein expressed.

Given under my hand and seal of office this _____ day of _____, A.D. 1965.

My Commission Expires: _____

Notary Public in and for
_____ County, _____

THE STATE OF _____

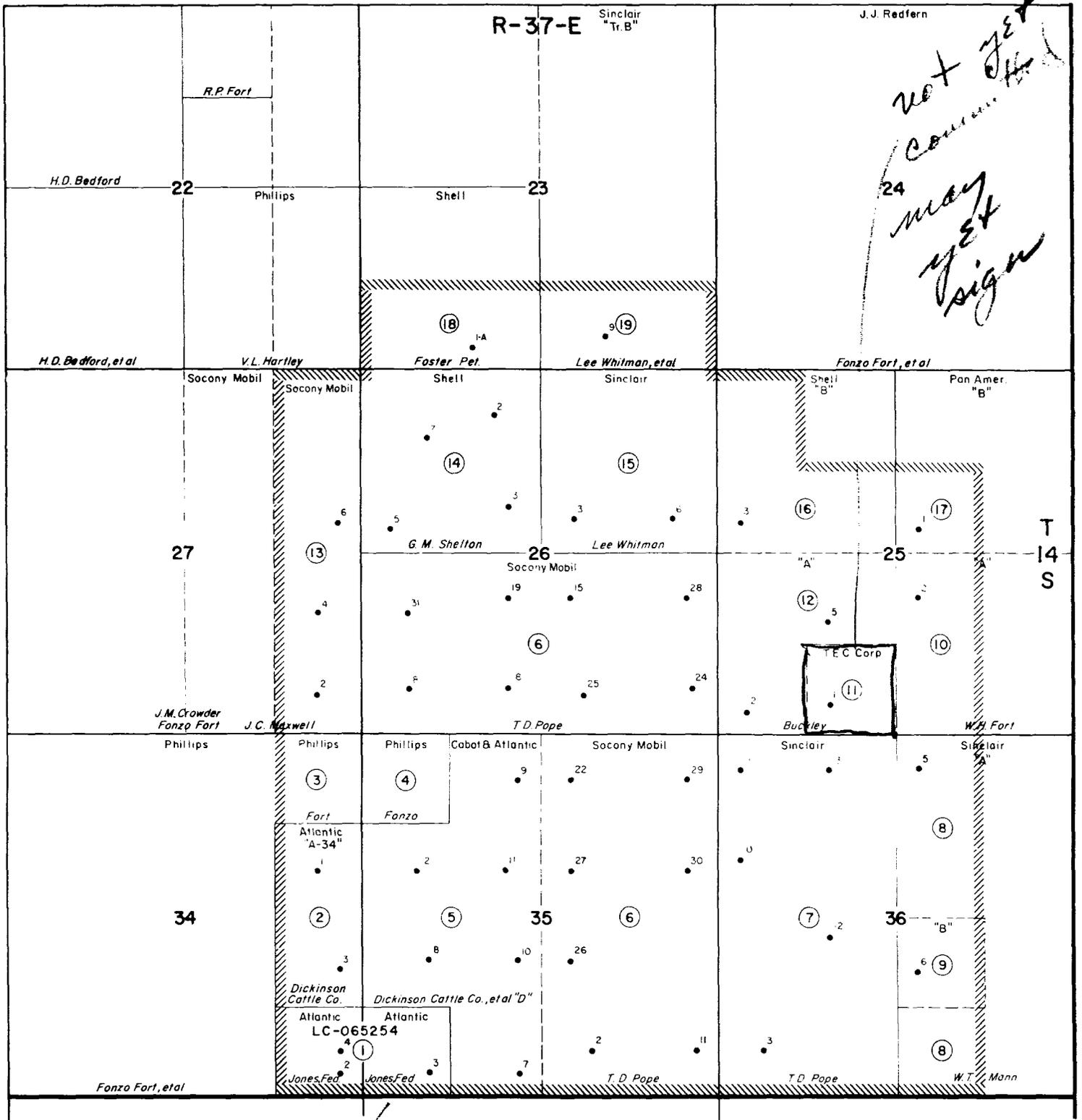
COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name _____ subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this _____ day of _____, A.D. 19_____.

My Commission Expires: _____

Notary Public in and for
_____ County, _____



*not yet
completed
may yet
sign*

T
14
S

LEGEND

- Wolfcamp Well
- //// Unit Boundary
- Ⓢ Tract Number

**EXHIBIT A
TO UNIT AGREEMENT
DENTON NORTH WOLFCAMP UNIT
LEA COUNTY, NEW MEXICO**

EXHIBIT "B"
TO

UNIT AGREEMENT
DENTON NORTH WOLF CAMP UNIT
LEA COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. AND DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION PHASE I PHASE II
1	Township 14 South, Range 37 East Sec. 34: SE/4 SE/4 Sec. 35: SW/4 SW/4	80	LC-065254 5-1-47	U.S.A. 12½%	The Atlantic Refining Co.	None	The Atlantic Refining Co. 100%	12.177084 08.571985

TOTAL: ONE FEDERAL TRACT - - 80 ACRES OR 3.03% OF UNIT AREA

FEE LANDS

2	Township 14 South, Range 37 East Sec. 34: SE/4 NE/4 and NE/4 SE/4	80		12½%		None	The Atlantic Refining Co. 100%	05.254215 05.030621
3	Township 14 South, Range 37 East Sec. 34: NE/4 NE/4	40	5-15-48	12½%	W. C. Cremin, et ux	None	Roy G. Barton 0.3571% Herd Oil & Gas Co. 0.7273% Phillips Pet. Co. 96.0390% Redfern Oil Co. 1.0909% Shell Oil Co. 1.7857%	-0- 00.151515
4	Township 14 South, Range 37 East Sec. 35: NW/4 NW/4	40	5-15-48	12½%	W. C. Cremin, et ux	C. R. Hutchison .0989%	Roy G. Barton 0.3571% Herd Oil & Gas Co. 0.7273%	-0- 00.151515

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. AND DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION	
								PHASE I	PHASE II
4	FEE LANDS (Contd.)						Odell L. Lowe 5.0000%		
							Phillips Pet. Co. 91.0390%		
							Redfern Oil Co. 1.0909%		
							Shell Oil Co. 1.7857%		
5	Township 14 South, Range 37 East Sec. 35: NE/4 NW/4, S/2 NW/4, N/2 SW/4 & SE/4 SW/4	240		12½%		None	The Atlantic Refining Co. 50% Cabot Corp. 50%	00.278462	04.015794
6	Township 14 South, Range 37 East Sec. 26: S/2 Sec. 35: E/2	640	8-13-43	12½%	J. E. Simmons	None	Herd Oil&Gas Co. 3.9580% Redfern Oil Co. 5.9380% Shell Oil Co. 15.1040% Socony Mobil Oil Company, Inc. 75.0000%	29.781011	35.326891
7	Township 14 South, Range 37 East Sec. 36: W/2	320	12-22-48	12½%	G. W. Shelton, et ux	None	Herd Oil&Gas Co. 1.6667% Redfern Oil Co. 2.5000% Shell Oil Co. 5.7292% Sinclair Oil&Gas Co. 90.1041%	11.041017	10.667303

(Contd)

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. AND DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION PHASE I	UNIT PARTICIPATION PHASE II
8	<u>Township 14 South, Range 37 East</u> Sec. 36: W/2 NE/4 and SW/4 SE/4	120		12½%	None	Sinclair Oil&Gas Company 98.4375% Sinclair Oil&Gas Co. for Acct. of George F. Norton 1.5625%	00.786966	01.406991	
9	<u>Township 14 South, Range 37 East</u> Sec. 36: NW/4 SE/4	40		12½%	None	Sinclair Oil&Gas Company 98.4375% Sinclair Oil&Gas Co. for Acct. of George F. Norton 1.5625%	01.102213	00.874508	
10	<u>Township 14 South, Range 37 East</u> Sec. 25: W/2 SE/4	80		12½%	None	Pan American Petroleum Corp. 100%	01.004879	00.502178	
11	<u>Township 14 South, Range 37 East</u> Sec. 25: SE/4 SW/4	40		12½%	None	T.E.C. Corp. 100%	00.674697	00.601762	
12	<u>Township 14 South, Range 37 East</u> Sec. 25: W/2 SW/4 and NE/4 SW/4	120	11-5-47	12½%	W. C. Cremin, et ux	Wm. Ardel, Sr. .0000692 Jennie D. Ardel .0000122 Mamie A. Canova .0000325 Eugene W. Canova, Sr. .0000041 Chester Canova .0000041	Roy C. Barton 1.1719% Sadie Flackman 0.8594% John D. Greany 3.4072% Rosemary H. Greany 7.5839% G. I. Hanners 0.0977%	01.089291	01.805286

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. AND DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION PHASE I PHASE II
12 (Contd.)	<u>FEE LANDS (Contd.)</u>					Victor H. Collier .0000054 Cecelia M. Frecker .0000014 Helen A. Groene .0000641-P.P. Clarence Kempker .0001068-P.P. Frederick E. Peacock .0000082 Frances Duffy Peacock .0000041 H. J. Van Orden .0000014	Herd Oil & Gas Co. 12.9473% John I. Hook, Jr. 0.1953% Redfern Oil Co. 21.1396% Shell Oil Co. 52.5000% Howell Spear 0.0977%	
13	<u>Township 14 South, Range 37 East Sec. 27: E/2 E/2</u>	160	4-14-47	12½%	J. E. Simmons	None	Socony Mobil Oil Company, Inc. 100%	01.623437 03.575958
14	<u>Township 14 South, Range 37 East Sec. 26: NW/4</u>	160	1-2-48	12½%	W. C. Cremin, et ux	Charles H. Cook .0003107 G. W. Hutchison .0001243	Herd Oil&Gas Co. 0.7273% Phillips Pet. Co. 38.7542% Redfern Oil Co. 1.0909% Shell Oil Co. 59.4276%	13.619330 11.602472
15	<u>Township 14 South, Range 37 East Sec. 26: NE/4</u>	160		12½%		None	Sinclair Oil&Gas Company 100%	03.930980 04.008887
16	<u>Township 14 South, Range 37 East Sec. 25: W/2 NW/4 and SE/4 NW/4</u>	120	11-5-47	12½%	W. C. Cremin, et ux	Wm. Ardel, Sr. .0000488	Roy G. Barton 1.1719%	01.089710 01.839920

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. AND DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION PHASE I PHASE II
16 (Contd.)	FEE LANDS (Contd.)					Jennie D. Ardel .0000122 Mamie A. Canova .0000082 E. W. Canova, Sr. .0000041 Chester Canova .0000041 V. H. Collier .0000015 Helen A. Groen .0000641-P.P. Clarence Kempker .0001068-P.P. Frances D. Peacock .0000041 H. J. Van Orden .0000014	Sadie Flackman 0.8594% John D. Greany 3.4073% Rosemary H. Greany 7.5839% G. T. Hanners 0.0977% Herd Oil & Gas Co. 12.9473% Pan American Petro. Corp. 6.2500% John I. Hook, Jr. 0.1953% Redfern Oil Co. 21.1396% Shell Oil Co. 46.2500% Howell Spear 0.0976%	
17	Township 14 South, Range 37 East Sec. 25: SW/4 NE/4	40		12 1/2%	None	Pan American Petro. Corp. 100%	Pan American Petro. Corp. 100%	00.350988 00.443310
18	Township 14 South, Range 37 East Sec. 23: S/2 SW/4	80	1-2-48	12 1/2%	W. C. Cremin, et ux	Charles H. Cook .0003107 Foster Petro. Corp. .0068359 G. W. Hutchison .0001243 Thelma A. Linam .0034179-P.P. Phillips Pet. Co. .0000633-P.P.	Herd Oil & Gas Co. 0.7273% Phillips Pet. Co. 26.2542% Redfern Oil Co. 1.0909% Shell Oil Co. 71.9276%	16.195720 08.961622

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. AND DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION PHASE I	UNIT PARTICIPATION PHASE II
19	FEE LANDS (Contd.) Township 14 South, Range 37 East Sec. 23: S/2 SE/4	80		12½%		None	Sinclair Oil & Gas Company 100%	-0-	00.461482
TOTAL EIGHTEEN FEE TRACTS - - - 2560 ACRES OR 96.97% OF UNIT AREA									
GRAND TOTAL NINETEEN TRACTS---- 2640 ACRES OR 100% OF UNIT AREA									
								100.000000	100.000000