

CERTIFICATION OF REVISION OF EXHIBITS

VACUUM ABO UNIT
LEA COUNTY, NEW MEXICO

WHEREAS, Phillips Petroleum Company and other owners of oil and gas rights in and to a portion of the Vacuum Abo Reef Field (8514'-9157'), more particularly described in the revised Exhibits A and B attached hereto, have entered into an agreement entitled "Unit Agreement, Vacuum Abo Unit, Lea County, New Mexico", hereinafter called "Unit Agreement", a counterpart copy of which agreement is recorded in Book 260, Page 400 of the Miscellaneous Records of Lea County, New Mexico; and

WHEREAS, the Unit Agreement became effective, as to the tracts of land that qualified thereunder, on February 1, 1967; and

WHEREAS, Phillips Petroleum Company is designated in the Unit Agreement as the Unit Operator of the qualifying tracts; and

WHEREAS, Article 11 of the Unit Agreement further provides that if any of the tracts described in the original Exhibit A attached to the Unit Agreement fail to qualify for inclusion thereunder, the 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; and

WHEREAS, Article 22 of the Unit Agreement provides that if an exhibit is revised pursuant thereto, the Unit Operator shall certify and file the revised exhibit with the Commissioner of Public Lands for the State of New Mexico, and in the County records of Lea County, New Mexico; and

WHEREAS, one certain tract described in said original Exhibit A to the Unit Agreement as Tract 3 so failed to qualify under the provisions of the Unit Agreement.

NOW, THEREFORE, Phillips Petroleum Company, as Unit Operator, hereby certifies that in pursuance of the terms and provisions of the Unit Agreement it has recomputed, using the original basis of computation, the Tract Participation of each of the qualifying tracts and has accordingly revised Exhibits A and B attached to the Unit Agreement. Copies of said revised Exhibits A and B are attached and filed as required and pursuant to the provisions of Article 22 of the Unit Agreement said revisions shall be effective as of the effective date of the Unit Agreement, namely, February 1, 1967.

Dated this 6th day of February, 1967.

PHILLIPS PETROLEUM COMPANY

Attest:

By J. D. Brubaker
Vice President

Lawrence M. Thompson
Assistant Secretary

(See Reverse Side)

STATE OF OKLAHOMA

COUNTY OF WASHINGTON

Before me, the undersigned authority, on this day personally appeared _____

H. D. Broonby, known to me to be the person who executed the foregoing instrument as Vice President of Phillips Petroleum Company and acknowledged to me that he executed the same for the purposes and consideration therein expressed; as the act and deed of said Corporation and in the capacity therein stated.

Given under my hand and seal of office this 6th day of February, A. D., 1967.

Russell J. McLellan
Notary Public in and for
Washington County, Oklahoma

My Commission Expires

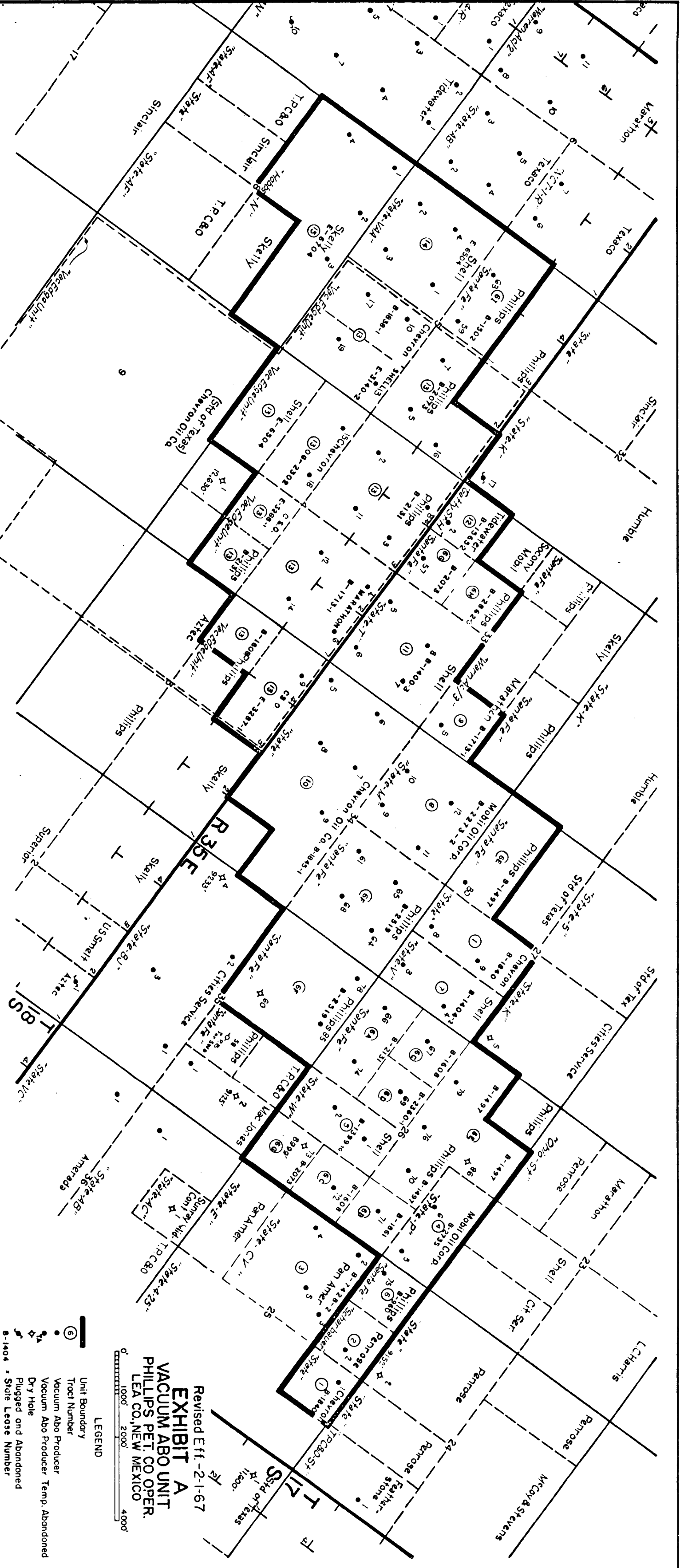
November 1, 1970

EXHIBIT "B" TO UNIT AGREEMENT
VACUUM ABO UNIT - LEA COUNTY, NEW MEXICO
(Revised 2-1-67)

Tract No.	Description of Land	No. of Acres	New Mexico State Lease Number	Basic Royalty and Amount	Lessee of Record	Overriding Royalty Owners and Amount	Working Interest Owners and		Working Interest Participation in Tract and Percent Tract Participation
							Percent Working Interest in Tract	Percent Tract Participation	
1	NW/4 NE/4 Sec. 25-17S - 35E and W/2 SE/4 Sec. 27-17S - 35E	120	B-1840-1	State of New Mexico 12.50000%	Chevron Oil Company	None	Chevron Oil Co.	100.00000	.86531
2	NE/4 NW/4 Sec. 25-17S - 35E	40	Private Land Scharbauer Cattle Co. Viola Lee Bookie Lee Anderson Roy R. Lee R. D. Lee, Jr. Giles M. Lee	Listed below: 14.06250% .82030% .96680% .96680% .96680% .96680% 18.75000%	Neville G. Penrose	None	Brosoco Corp. Penrose Prod. Co. John B. Rich	47.50000 50.00000 2.50000 100.00000	.45766 .48175 .02409 .96350
4	N/2 NE/4 Sec. 26-17S - 35E	80	B-2735	State of New Mexico 12.50000%	Mobil Oil Corp.	None	Mobil Oil Corp.	100.00000	.88422
5	W/2 SE/4 Sec. 26-17S - 35E	80	B-1399-10	State of New Mexico 12.50000%	Sinclair Oil & Gas Co.	None	Shell Oil Company	100.00000	3.59510
6	NW/4 NW/4 Sec. 25-17S - 35E	40	B-960	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co.	100.00000	.50316
6-A	S/2 SW/4 Sec. 26-17S - 35E	80	B-2131	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co.	100.00000	3.70916
6-B	SE/4 NE/4 Sec. 26-17S - 35E	40	B-1861	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co.	100.00000	2.06273
6-C	NW/4 SW/4 & NE/4 SE/4 Sec. 26-17S - 35E	80	B-1608	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co.	100.00000	3.42433
6-D	NE/4 SW/4 Sec. 26-17S - 35E	40	B-2360-1	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co.	100.00000	2.09480
6-E	S/2 NW/4 & NE/4 NW/4 & SW/4 NE/4 Sec. 26 & S/2 SW/4 Sec. 27-17S-35E	240	B-1497	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co.	100.00000	8.37386
6-F	NE/4 Sec. 34 & NW/4 Sec. 35-17S-35E	320	B-2519	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co.	100.00000	11.86220
6-G	SE/4 SE/4 Sec. 26 & SE/4 SW/4 Sec. 33-17S - 35E	80	B-2073	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co.	100.00000	.55407
6-H	NE/4 SW/4 Sec. 33-17S - 35E	40	B-2862-3	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co.	100.00000	.00000
6-I	S/2 NW/4 Sec. 5-18S - 35E	80 1,040	B-1502	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co.	100.00000	1.70685 34.29116
7	E/2 SE/4 Sec. 27-17S - 35E	80	B-1404-2	State of New Mexico 12.50000%	Shell Oil Company	None	Shell Oil Company	100.00000	3.72942
8	NW/4 Sec. 34-17S-35E	160	B-2273-2	State of New Mexico 12.50000%	Mobil Oil Corp.	None	Mobil Oil Corp.	100.00000	6.77456
9	SE/4 NE/4 Sec. 33-17S - 35E	40	B-1713-1	State of New Mexico 12.50000%	Marathon Oil Company	None	Marathon Oil Company	100.00000	.12350
10	N/2 S/2, S/2 SW/4, SW/4 SE/4 Sec. 34-17S-35E	280	B-1845-1	State of New Mexico 12.50000%	Chevron Oil Co.	None	Chevron Oil Company	100.00000	9.63178
11	SE/4 Sec. 33-17S-35E	160	B-1400-3	State of New Mexico 12.50000%	Shell Oil Company	None	Shell Oil Company	100.00000	4.65589
12	SW/4 SW/4 Sec. 33-17S - 35E	40	B-1565-2	State of New Mexico 12.50000%	Getty Oil Company	None	Getty Oil Company	100.00000	.84693

Tract No.	Description of Land	No. of Acres	New Mexico State Lease Number	Basic Royalty		Lessee of Record	Overriding Royalty Owners and Amount		Working Interest Owners and Percent Working Interest in Tract		Working Interest Percent Participation in Tract and Percent Tract Participation	
				and Amount								
13	NE/4 NE/4 Sec. 5- 18S - 35E	40	B-2073	State of New Mexico 12.50000%		Phillips Petroleum Co.	None		Aztec Oil & Gas Co.	7.69812		1.92663
	S/2 NE/4 Sec. 5- 18S - 35E	80	B-2073	State of New Mexico 12.50000%		Phillips Petroleum Co.	None		Chevron Oil Co.	36.54368		9.14593
	NW/4 Sec. 4-18S-35E	160	B-2131	State of New Mexico 12.50000%		Phillips Petroleum Co.	None		Cities Service Oil Co.	1.91708		.47980
	NE/4 SE/4 Sec. 4- 18S - 35E	40	B-2131	State of New Mexico 12.50000%		Phillips Petroleum Co.	None		Marathon Oil Co.	7.67406		1.92061
	SW/4 NW/4 Sec. 3- 18S - 35E	40	B-1608	State of New Mexico 12.50000%		Phillips Petroleum Co.	None		Phillips Petroleum Co.	23.07270		5.77450
	NE/4 Sec. 4-18S-35E	160	B-1713-1	State of New Mexico 12.50000%		Marathon Oil Company	None		Shell Oil Company	7.69812		1.92664
	N/2 NW/4 Sec. 3- 18S - 35E	80	E-3287-1	State of New Mexico 12.50000%		Cities Service Oil Co.	Cities Serv. Oil Co. 1.44%	*Tidewater Oil Co.	15.39624			3.85328
	NW/4 SE/4 Sec. 4- 18S - 35E	40	E-3286-1	State of New Mexico 12.50000%		Cities Service Oil Co.	Pacific Sabine No. 3 0.46%			100.00000		25.02739
	E/2 SE/4 Sec. 5- 18S - 35E	80	E-3140-2	State of New Mexico 12.50000%		Shell Oil Company	Jas. D. Erwin 0.19%					
	S/2 SW/4 Sec. 4- 18S - 35E	80	E-6504	State of New Mexico 12.50000%		Shell Oil Company	None					
	W/2 SE/4 Sec. 5- 18S - 35E	80	B-1838-1	State of New Mexico 12.50000%		Chevron Oil Co.	None					
	N/2 SW/4 Sec. 4- 18S - 35E	80	OC-2302	State of New Mexico 12.50000%		Chevron Oil Co.	None					
		<u>960</u>										
14	SW/4 Sec. 5-18S-35E	160	E-6504	State of New Mexico 12.50000%		Shell Oil Company	None		Shell Oil Company	100.00000		4.91722
15	NW/4, N/2 NE/4 Sec. 8-18S - 35E	<u>240</u>	E-6704	State of New Mexico 12.50000%		Skelly Oil Company	None		Skelly Oil Company	100.00000		3.69395
		Total Acres - -	3,480									
				Total	- -	100.00000						

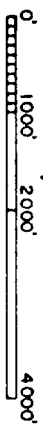
* Tidewater Oil Company
Interest Not Committed
to Vacuum Abo Unit.



LEGEND

- ⑥ Unit Boundary
- Tract Number
- Vacuum Abo Producer
- Vacuum Abo Producer Temp. Abandoned
- Plugged and Abandoned
- State Lease Number

Revised Eff. -2-1-67
EXHIBIT A
VACUUM ABO UNIT
PHILLIPS PET. CO. OPER.
LEA CO., NEW MEXICO



Tract No.	Description of Land	No. of acres	New Mexico State Lease Number	Basic Royalty and amount	Lessee of Record	Overriding Royalty Owners and Amount	Working Interest Owners and Percent Working Interest in Tract	Working Interest Percent Tract Participation
1	NW/4 NE/4 Sec. 25-17 S - 35 E and W/2 SE/4 Sec. 27-17 S - 35 E	120	B-1840-1	State of New Mexico 12.50000%	Std. Oil Company of Texas	None	California Oil Co. 100.00000	<u>.65600</u>
2	NE/4 NW/4 Sec. 25-17 S - 35 E	40	Private Land Scharbauer Cattle Co. Viola Lee Bookie Lee Anderson Roy R. Lee R. D. Lee, Jr. Giles M. Lee	Listed below. 14.06250% .82030% .96680% .96680% .96680% .96680% 18.75000%	Neville G. Penrose	None Broseco Corp. Penrose Prod. Co. John B. Rich 47.50000 50.00000 <u>2.50000</u> 100.00000	<u>.45273</u> <u>.47657</u> <u>.02383</u> <u>.95313</u>	
3	S/2 NW/4 & N/2 SW/4 Sec. 25-17 S - 35 E	160	B-7428-2	State of New Mexico 12.50000%	Great Western Drlg. Co.	Great Western Drlg. Co. 15.00%	Pan American Pet. Corporation 100.00000	<u>1.07606</u>
4	N/2 NE/4 Sec. 26-17 S - 35 E	80	B-2735	State of New Mexico 12.50000%	Socony Mobil Oil Co., Inc.	None	Socony Mobil Oil Co., Inc. 100.00000	<u>.87470</u>
5	W/2 SE/4 Sec. 26-17 S - 35 E	80	B-1399-10	State of New Mexico 12.50000%	Sinclair Oil & Gas Co.	None	Shell Oil Company 100.00000	<u>3.55642</u>
6	NW/4 NW/4 Sec. 25-17 S - 35 E	40	B-960	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co. 100.00000	<u>.49774</u>
6-A	S/2 SW/4 Sec. 26-17 S - 35 E	80	B-2131	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co. 100.00000	<u>3.66925</u>
6-B	SE/4 NE/4 Sec. 26-17 S - 35 E	40	B-1861	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co. 100.00000	<u>2.04054</u>
6-C	NW/4 SW/4 and NE/4 SE/4 Sec. 26-17 S - 35 E	80	B-1608	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co. 100.00000	<u>3.38748</u>
6-D	NE/4 SW/4 Sec. 26-17 S - 35 E	40	B-2360-1	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co. 100.00000	<u>2.07226</u>
6-E	S/2 NW/4 & NE/4 NW/4 & SW/4 Sec. 27-17S-35E	240	B-1497	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co. 100.00000	<u>8.28375</u>
6-F	NE/4 Sec. 34 & NW/4 Sec. 35-17S-35E	320	B-2519	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co. 100.00000	<u>11.73456</u>
6-G	SE/4 SE/4 Sec. 26 & SE/4 SW/4 Sec. 33-17 S - 35 E	80	B-2073	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co. 100.00000	<u>.54810</u>
6-H	NE/4 SW/4 Sec. 33-17 S - 35 E	40	B-2862-3	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co. 100.00000	<u>.00000</u>
6-I	S/2 NW/4 Sec. 5-18 S - 35 E	<u>80</u> 1,040	B-1502	State of New Mexico 12.50000%	Phillips Pet. Co.	None	Phillips Pet. Co. 100.00000	<u>1.68849</u> <u>33.92217</u>
7	E/2 SE/4 Sec. 27-17 S - 35 E	80	B-1404-2	State of New Mexico 12.50000%	Shell Oil Company	None	Shell Oil Company 100.00000	<u>3.68936</u>
8	NW/4 Sec. 34-17S-35E	160	B-2273-2	State of New Mexico 12.50000%	Socony Mobil Oil Co., Inc.	None	Socony Mobil Oil Co., Inc. 100.00000	<u>6.70166</u>
9	SE/4 NE/4 Sec. 33-17 S - 35 E	40	B-1713-1	State of New Mexico 12.50000%	Marathon Oil Company	None	Marathon Oil Company 100.00000	<u>.12217</u>
10	N/2 S/2, S/2 SW/4, SW/4 SE/4 Sec. 34-17S-35E	280	B-1845-1	State of New Mexico 12.50000%	Std. Oil Co. of Texas	None	California Oil Co. 100.00000	<u>4.52813</u>
11	SE/4 Sec. 33-17S-35E	160	B-1400-3	State of New Mexico 12.50000%	Shell Oil Company	None	Shell Oil Company 100.00000	<u>4.60574</u>
12	SW/4 SW/4 Sec. 33-17 S - 35 E	40	B-1565-2	State of New Mexico 12.50000%	Getty Oil Company	None	Getty Oil Company 100.00000	<u>.83782</u>

Tract No.	Description of Land	No. of Acres	New Mexico State Lease Number	Basic Royalty and Amount	Lessee of Record	Overriding Royalty Owners and Amount	Working Interest Owners and Percent Working Interest in Tract	Working Interest Percent Tract Participation
13	NE/4 NE/4 Sec. 5- 18 S - 35 E S/2 NE/4 Sec. 5- 18 S - 35 E NW/4 Sec. 4-18S-35E	40 80 160	B-2073 B-2073 B-2131	State of New Mexico 12.50000% State of New Mexico 12.50000% State of New Mexico 12.50000%	Phillips Petroleum Co. Phillips Petroleum Co. Phillips Petroleum Co.	None None None	Aztec Oil & Gas Co. California Oil Co. Cities Service Oil Co.	1.90590 9.04752 .47463
	NE/4 SE/4 Sec. 4- 18 S - 35 E SW/4 NW/4 Sec. 3- 18 S - 35 E NE/4 Sec. 4-18S-35E	40 40 160	B-2131 B-1608 B-1713-1	State of New Mexico 12.50000% State of New Mexico 12.50000% State of New Mexico 12.50000%	Phillips Petroleum Co. Phillips Petroleum Co. Marathon Oil Company	None None None	Marathon Oil Co. Phillips Petroleum Co. Shell Oil Company	1.89995 5.71236 1.90591
	N/2 NW/4 Sec. 3- 18 S - 35 E NW/4 SE/4 Sec. 4- 18 S - 35 E E/2 SE/4 Sec. 5- 18 S - 35 E S/2 SW/4 Sec. 4- 18 S - 35 E W/2 SE/4 Sec. 5- 18 S - 35 E N/2 SW/4 Sec. 4- 18 S - 35 E	80 40 80 80 80 80 960	E-3287-1 E-3286-1 E-3140-2 E-6504 B-1838-1 OG-2302	State of New Mexico 12.50000% State of New Mexico 12.50000% State of New Mexico 12.50000% State of New Mexico 12.50000%	Cities Service Prod. Co. Cities Service Prod. Co. Shell Oil Company Shell Oil Company Std. Oil Company of Texas Std. Oil Company of Texas	Cities Serv. Prod. Co. Pacific Sabine No. 3 Jas. D. Erwin None None None	Tidewater Oil Co.	3.81182 24.75809
14	SW/4 Sec. 5-18S-35E	160	E-6504	State of New Mexico 12.50000%	Shell Oil Company	None	Shell Oil Company	4.86430
15	NW/4, N/2 NE/4 Sec. 8- 18 S - 35 E	240	E-6704	State of New Mexico 12.50000%	Skelly Oil Company	None	Skelly Oil Company	3.65420
	3,640 Acres (Total)					Total		100.00000

VACUUM ABO UNIT
TABULATION OF MAJOR OWNERS

<u>Working Interest Owners</u>	<u>Percent Unit Participation</u>
Phillips Petroleum Company	39.6
Chevron Oil Company	19.4
Shell Oil Company	18.6
*Mobil Oil Company	7.6
*Tidewater Oil Company	3.8
Skelly Oil Company	3.7
Marathon Oil Company	2.0
*Aztec Oil & Gas Company	1.9
*Pan American Petroleum Corporation	1.1
Others (Less than one percent each)	<u>2.3</u>
	100.00
 <u>Basic Royalty Owners</u>	
State of New Mexico	99.0
Others	1.0

*Have not approved Unit as of December 30, 1966

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Phillips EXHIBIT NO. 2
CASE NO. 3508-3509

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
VACUUM ABO UNIT
VACUUM FIELD
LEA COUNTY, NEW MEXICO

See 17th 2nd

BEFORE EXAMINER NUTTER

OIL CONSERVATION COMMISSION

Phillips EXHIBIT NO. 1

CASE NO. 3508 + 3509

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
VACUUM ABO UNIT
LEA COUNTY, NEW MEXICO

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Exhibits

Exhibit "A": Map of Unit Area

Exhibit "B": Leasehold Information and Tract Participations

Certificate of Approval - State of New Mexico

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
VACUUM ABO UNIT
LEA COUNTY, NEW MEXICO

NO. _____

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 7-11-39, et seq., New Mexico Statutes, 1953 Annotated) to amend with the approval of the Lessee, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the terms of the unitized development and operation of State Lands; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Art. 111, Ch. 65, Vol. 9, part 2, New Mexico Statutes, 1953 Annotated) to approve this agreement, and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Unit Area subject to this agreement to give reasonable effective control of operation therein; and

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

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

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

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

- (a) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells completed in the Unitized Formation.
- (d) "Working Interest" means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing, and operating the Unitized Formation. 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.
- (e) "Working Interest Owner" means a party hereto who owns a Working Interest. The owner of oil and gas rights that are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect

to his remaining one-eighth (1/8) interest therein.

- (f) "Royalty Interest" means a right to or interest in any portion of the Unitized Substances or proceeds thereof other than Working Interest.
- (g) "Royalty Owner" means a party hereto who owns a Royalty Interest.
- (h) "Unitized Formation" is defined as and shall mean the Abo Reef zone of the Permian Formation underlying the Unit Area, which occurs between the logged depths, measured from the Kelly bushing, of 8514 feet and 9157 feet in the Phillips Petroleum Company No. 76 Santa Fe as shown on the electric log of said well, which is located 2310 feet from the north line and 2276 feet from the west line of Section 26, Township 17 South, Range 35 East, Lea County, New Mexico.
- (i) "Unitized Substances" means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.
- (j) "Unit Operator" 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.
- (k) "Unit Manager" is defined as the person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 6 hereof.
- (l) "Unit Operating Agreement" is defined as and shall mean the agreement entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 7 entitled "Accounting

Provisions and Unit Operating Agreement," or any amendment or supplement thereto.

- (m) "Usable Well" is defined as a well which has been drilled in the Unit Area to the depth of the Unitized Formation and has casing in the hole in condition for use as either a producing well or an injection well, and on which well there has been filed with the State of New Mexico, on or before the effective date of this agreement, a well record and Completion Report (Form C-105) or Request for Oil Allowable (Form C-104) and which well has produced some oil from the Unitized Formation and has had an allowable granted for it by the Oil Conservation Commission of the State of New Mexico.
- (n) "Tract Ultimate Primary Recovery" is defined as the total cumulative amount of oil produced from such Tract up to but not including September 1, 1964, plus the number of barrels of oil heretofore approved by the Working Interest Owners as the estimated economic remaining primary oil reserves of such Tract as of September 1, 1964.
- (o) "Unit Area Ultimate Primary Recovery" is defined as summation of the Tract Ultimate Primary Recovery of those Tracts which are effectively committed to this agreement.
- (p) "Unitized Land" or "land subject to this agreement" is defined as and shall mean those lands within the Unit Area which are committed to this agreement.
- (q) "Tract" means each parcel of land described as such and given a Tract Number in Exhibit B, attached hereto.
- (r) "Tract Participation" means the percentage shown on Exhibit B for allocating Unitized Substances to a Tract under this agreement.
- (s) "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.

- (t) "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.
- (u) "Unit Equipment" 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.
- (v) "Unit Expense" means all costs, expenses, 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.

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

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

Township 17 South, Range 35 East

Section 25: NW/4 NE/4, NW/4 and N/2 SW/4
26: E/2, NE/4 NW/4, S/2 NW/4, and SW/4
27: S/2 SW/4 and SE/4
33: SE/4 NE/4, SW/4 SW/4, E/2 SW/4, and SE/4
34: N/2, SW/4, W/2 SE/4, and NE/4 SE/4
35: NW/4

Township 18 South, Range 35 East

Section 3: NE/4 NW/4 and W/2 NW/4
4: N/2, SW/4 and N/2 SE/4
5: NE/4 NE/4, S/2 NE/4, S/2 NW/4, and S/2
8: N/2 NE/4 and NW/4

Situated in Lea County, New Mexico, containing 3640 acres.

more or less, and such additional lands to which this agreement may be extended, all as herein provided.

Exhibit A attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit B attached hereto is a schedule

showing to the extent known to the Unit Operator the acreage comprising each Tract, percentage ownership of each Working Interest Owner in each Tract, and the percentages of participation. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits A and B shall be revised by the Unit Operator whenever changes in the Unit Area render such revision necessary, or when requested by the Commissioner. Two copies of such revision shall be filed with the Commissioner.

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

- (a) The owner or owners of the Working Interest in and to any tract or tracts desiring to bring such tract or tracts into the Unit Area shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the Unit Participation to be assigned to such acreage, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise), if the tract or tracts can qualify under the provisions of Section 11 hereof, then Unit Operator shall, after preliminary concurrence by the Commissioner,
 - (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional acreage, the Unit Participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the day of notice; and
 - (2) Deliver copies of said notice to the Commissioner, each

Working Interest Owner (mailing copy of such notice to the last known address of each such Working Interest Owner) and to the lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansions; and

- (3) File, upon the expiration of said thirty (30) day period as set out in Item 2 immediately above, with the Commissioner the following: evidence of mailing copies of said notice of expansion; an application for such expansion; an instrument containing the appropriate joinders in compliance with the participation requirement of Section 30, "Nonjoinder and Subsequent Joinder", infra; and copy of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commission and the Commissioner, become effective as of 7:00 a.m. on the first day of the month following such approval, unless otherwise agreed upon as provided in the notice of expansion.

3. UNITIZED SUBSTANCES AND RIGHTS. All Unitized Substances in or that may be produced from the Unitized Formation underlying the lands subject to this agreement are unitized under the terms of this agreement. 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 Unitized Land as may reasonably be necessary for Unit operations. 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 Abo Reef zone of the Permian Formation, as above described.

4. UNIT OPERATOR. Phillips Petroleum Company, Bartlesville, Oklahoma, is hereby designated as Unit Operator and by signing this instrument as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the operation and development of the Unitized Formation for the production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the

Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances and the term "Working Interest Owner", when used herein, shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

5. 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 three (3) months after notice of intention to resign has been served by Unit Operator on all Working Interest Owners and the Commissioner, and until all wells then subject hereto are placed in a satisfactory condition for suspension or abandonment, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The Unit Operator may be subject to removal by ninety per cent (90%) of the committed Working Interests on the basis of Unit Participation, in effect at the time, exclusive of the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

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

The resignation or removal of Unit Operator, under this agreement, shall not terminate its right, title, or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, appurtenances, and any other assets, used in conducting the unit operations and owned by

the Working Interest Owners to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of at least eighty per cent (80%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed. Such selection shall not become effective until (a) a Unit Operator so selected shall accept, in writing, the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Commissioner, at his election, may declare this Unit Agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and expenses incurred by Unit Operator, in conducting Unit Operations hereunder, shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the agreement or agreements entered into (separately or collectively) by and between the Working Interest Owners. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under

this Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this section shall be filed with the Commissioner prior to approval of this agreement.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the Unitized Substances, are hereby delegated to and shall be exercised by the Unit Operator as herein provided.

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.

9. 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 secondary recovery project in order to effect the greatest recovery of Unitized Substances, prevent waste, and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, and any one or more other substances whether produced from the Unit Area or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed

by standards of good geologic and petroleum engineering practices and conservation methods. Subject to like approval, the plan of operations may be revised as conditions may warrant. The initial plan of operation shall be filed with the Commissioner 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 Commissioner may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

10. TRACT PARTICIPATION. The Tract Participation of each Tract is shown on Exhibit B and was determined in accordance with the following formula:

$$\text{Tract Participation} = \frac{\text{Tract Ultimate Primary Oil Recovery}}{\text{Sum of Ultimate Primary Oil Recovery for all Tracts in the Unit Area}}$$

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.

11. TRACTS QUALIFIED FOR UNIT PARTICIPATION. On and after the effective date hereof and until the enlargement or reduction thereof, the Unit Area shall be composed of the Tracts listed in Exhibit B that corner or have a common boundary (Tracts separated only by a public highway or railroad right of way shall be considered to have a common boundary), and 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 as to which (1) all Working Interest Owners in such Tract have joined in a request for the inclusion of such Tract in the Unit Area, and as to which (2) seventy-five per cent (75%) of the combined voting interests of Working Interest Owners in all Tracts that meet the requirements of Section (a) have voted in favor of the inclusion of such Tract. For the purpose of this Section (b), the voting interest of a Working Interest Owner shall be equal to the ratio that its Unit Participation attributable to Tracts that qualify under Section (a) bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Section (a).

- (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, regardless of the percentage of Royalty Interest therein that is committed hereto; 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 Interests 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) seventy-five per cent (75%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Sections (a) and (b) have voted in favor of the inclusion of such tract and to accept the indemnity agreement. For the purpose of this Section (c), the voting interest of each Working Interest Owner shall be equal to the ratio that its Unit Participation attributable to Tracts that qualify under Sections (a) and (b) bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Sections (a) and (b). 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 Interests in the Tract.

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

production of Unitized Substances until a new schedule is filed and approved by the Commissioner.

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

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

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

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

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

and furnished to the Unit Operator providing for a different division, shall be divided among the separate owners in proportion to the surface acres of their respective parts of the Tracts.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Such party shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided the same are so constructed, maintained, and operated not to interfere with operations carried on pursuant hereto. Subject to Section 13 hereof, "Royalty Settlement," any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind.

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; 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. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such other Working Interest Owner sixty (60) days' notice of such intended sale. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owners for distribution to the parties entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator,

shall be responsible for the payment of all royalties, overriding royalties, oil payments, net profit contracts, and all payments out of or burdens on the lease or leases and Tracts contributed by it and received into the Unit Area and each such party shall hold each other party hereto harmless against all claims, demands, and causes of action for such royalties, overriding royalties, oil payments, net profit contracts, and other payments out of or burdens on the lease or leases and Tracts contributed by it to the Unit Area.

If, after the effective date of this agreement, there is any Tract or Tracts that are subsequently committed hereto, as above provided in Section 2, "Unit Area and Participation," or any Tract or Tracts within the Unit Area not effectively committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Section 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 schedule of participation as shown in Exhibit B shall be revised by the Working Interest Owners to show the new percentage participation of all of the then effectively committed Tracts and the revised Exhibit B, upon approval by the Commissioner shall govern the allocation of Unitized Substances from and after the effective date thereof until a new schedule is so approved.

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

leases, except that such royalties shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands or formations not subject to this agreement is introduced into the Unitized Land for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner, a like amount of gas less appropriate deductions for loss from any cause may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formulas as may be prescribed or approved by the Commissioner as conforming to good petroleum engineering practice; and, provided further that such right of withdrawal shall terminate on the termination of this agreement.

If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Land for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner, part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formulas as may be prescribed or approved by the Commissioner.

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

Each Royalty Owner (other than the State of New Mexico) that executes this agreement, represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit B, attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure in whole or in part, during the term of this agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately.

14. OIL IN LEASE TANKS ON EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit

Area in order to ascertain the amount of merchantable oil above the pipeline connection, in such tanks as of 7:00 a.m. on the effective date hereof. The amount of merchantable oil in power oil tanks shall be similarly determined. All such oil in lease, power oil, and other tanks which has been produced legally shall be and remain the property of the Working Interest Owners entitled thereto the same as if the Unit had not been formed; and such Working Interest Owners shall have the right to remove said oil from the Unit Area. Any such oil not promptly removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the applicable lease or leases and other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded 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 wells on that Tract and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded as a part of the Unitized Substances produced after the effective date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

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

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 for lands of the State of New Mexico, subject to this agreement, shall be paid at

the rate specified in the respective leases from the State of New Mexico.

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 State Laws or regulations.

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

19. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, unit agreements 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 Commissioner 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, or royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement. Without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

- (b) Drilling, producing, or secondary recovery operations performed hereunder upon any Tract of unitized land will be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.
- (c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioner, 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, unit agreement, or contract relating to the exploration, drilling, development, or operation for oil and gas which by its terms might expire prior to the termination of this agreement is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this agreement.
- (e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.
- (f) Any lease embracing lands of the State of New Mexico, which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.
- (g) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the land committed and as to the land not committed and the terms of such leases shall apply separately as to such segregated portions commencing as of the effective date hereof; provided, however, that notwithstanding any of the provisions of this agreement

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

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

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, photostatic, or certified copy of the instrument of transfer; and no assignment or transfer of any Royalty Interest subject thereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, photostatic, or certified copy of the instrument of transfer.

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

- (a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners owning a combined unit participation of at least eighty per cent (80%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy-five per cent (75%) of the Royalty Interest in the lands described in Section 2 of this agreement;
- (b) The approval of this agreement by the Commissioner and the Commission;
- (c) The filing of at least one counterpart of this agreement for the record in the records of Lea County, New Mexico, by Unit Operator; and provided further, that if (a), (b), and (c) are not accomplished on or before January 1, 1967, this agreement shall ipso facto terminate on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners owning a combined unit participation of at least seventy-five per cent (75%), and Working Interest Owners owning a combined unit participation of at least seventy-five per cent (75%) committed to this agreement have decided to extend said termination date for a period not

to exceed six (6) months. If said termination date is so extended and (a), (b), and (c) are not accomplished on or before said extended termination date, this agreement shall ipso facto terminate on said extended termination date and thereafter be of no further force or effect. For the purpose of this section, ownership shall be computed on the basis of unit participation. Unit Operator shall, within thirty (30) days after the effective date of this agreement, file for the record in the office or offices where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has become effective according to its terms and stating further the effective date.

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

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

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of three (3) months after termination of this agreement in which to salvage, sell, distribute, or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

23. RATE OF PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

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

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

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

27. 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.

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

29. LOSS OF TITLE. In the event title to any Tract of unitized land shall fail in whole or in part, and the true owner does not elect to join this Unit Agreement, the interest to which title failed shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any Royalty, Working Interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided that as to state land or leases, no payments of funds due the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Commissioner of Public Lands of the State of New Mexico, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

30. NONJOINDER AND SUBSEQUENT JOINDER. Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to submission of this agreement to the Commissioner for final approval, may thereafter be committed hereto upon compliance with the applicable provisions of Section 11 hereof, at any time up to the effective

date hereof, on the same basis of participation as provided for in Section 10 by the owner or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after 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 seventy-five per cent (75%) of the Working Interest Owners. Such joinder by a Royalty Owner must be evidenced by his execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may otherwise herein be provided, subsequent joinder to this agreement shall be effective at 7:00 a.m. as of the first day of the month following the filing with the Commission and the Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any Tract to this agreement and approval by the Commissioner.

31. LIEN OF UNIT OPERATOR. Unit Operator shall have lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

32. CREATION OF NEW INTEREST. If any Working Interest Owner shall, after executing this agreement, create any overriding royalty, production payments, or similar interests, hereafter referred to as "new interests," out of its interest subject to this agreement, such new interest shall be subject to all terms and provisions of this agreement and Section 18.1 of the Unit Operating Agreement.

33. 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.

34. 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.

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

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

37. 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.

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

WORKING INTEREST OWNERS

Name	Date Signed	Attest, if a Corporation or Witness, if an Individual
PHILLIPS PETROLEUM COMPANY		Attest:
By: _____ Vice President	_____	By: _____ Assistant Secretary
Address _____ _____		
INDIVIDUAL		WITNESS:
_____	_____	_____
Address _____ _____		

STATE OF _____)
COUNTY OF _____) ss

CORPORATION ACKNOWLEDGMENT

On this _____ day of _____, 1965, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

Notary Public in and for said County
and State

STATE OF _____)
COUNTY OF _____) ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me on this _____ day of _____, 1965, by _____.

My Commission Expires:

Notary Public in and for said County
and State

STATE OF _____)
COUNTY OF _____) ss

JOINT ACKNOWLEDGMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me on this _____ day of _____, 1965, by _____ and _____, his wife.

My Commission Expires:

Notary Public in and for said County
and State

CERTIFICATE OF APPROVAL
BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO,
OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION OF THE
VACUUM ABO UNIT AREA, LEA COUNTY, NEW MEXICO

There has been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, an agreement for the development and operation of the Vacuum Abo Unit Area, Lea County, New Mexico, dated December 1, 1965, in which Phillips Petroleum Company is designated as operator, and which has been executed by various parties owning and holding oil and gas leases embracing lands within the Unit Area and upon examination of said agreement, the Commissioner finds:

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

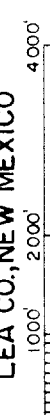
NOW, THEREFORE, by virtue of the authority conferred upon me by virtue of the laws of the State of New Mexico, I, the undersigned Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the state, do hereby consent to and approve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

IN WITNESS WHEREOF, this Certificate of Approval is executed as of this _____ day of _____, 19____.

Commissioner of Public Lands of the
State of New Mexico



EXHIBIT A
VACUUM ABO UNIT
PHILLIPS PET CO OPER.
LEA CO., NEW MEXICO



- LEGEND**
- Unit Boundary
 - Tract Number
 - Vacuum Abo Producer
 - Vacuum Abo Producer Temp. Abandoned
 - Dry Hole
 - Plugged and Abandoned
 - B-1404 = St. Lease Number

Tract No.	Description of Land	No. of Acres	New Mexico State Lease Number	Basic Royalty and Amount	Lessee of Record	Overriding Royalty Owners and Amount	Working Interest	
							Working Interest Owners and Percent Working Interest in Tract	Percent Tract Participation
1	NW/4 NE/4 Sec. 25-17 S - 35 E and W/2 SE/4 Sec. 27-17 S - 35 E	120	B-1840-1	State of New Mexico 12.50000%	Std. Oil Company of Texas	None	California Oil Co. 100.00000 <u>.85600</u>	
2	NE/4 NW/4 Sec. 25-17 S - 35 E	40	Private Land Scharbauer Cattle Co. Viola Lee Bookie Lee Anderson Roy R. Lee R. D. Lee, Jr. Giles M. Lee	Listed below. 14.06250% .82030% .96680% .96680% .96680% .96680% <u>18.75000%</u>	Neville G. Penrose	None <		

UNIT OPERATING AGREEMENT

VACUUM ABO UNIT

LEA COUNTY, NEW MEXICO

UNIT OPERATING AGREEMENT

VACUUM ABO UNIT

LEA COUNTY, NEW MEXICO

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- Exhibit "C": Unit Participation
- Exhibit "D": Accounting Procedure

UNIT OPERATING AGREEMENT

VACUUM ABO UNIT

LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the first day of December, 1965, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H:

WHEREAS, The parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled, "Unit Agreement, Vacuum Abo Unit, Lea County, New Mexico," herein referred to as "Unit Agreement," which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area as therein defined;

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement.

2.1.2 Exhibit C, attached hereto, which is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the percentage of total Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner. Exhibit C, or a revision thereof, shall

not be conclusive as to the information therein, except it may be used as showing the Unit Participations of the Working Interest Owners for purposes of this agreement until shown to be in error or is revised as herein authorized.

2.1.3 Exhibit D, attached hereto, which is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit D, this agreement shall govern.

2.2 Revision of Exhibits. Whenever Exhibits A and B are revised, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

3.2 Specific Authorities and Duties. The matters with respect to which the Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, including any type of pressure maintenance, secondary recovery, or other recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

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

3.2.4 Expenditures. The making of any single expenditure in excess of Fifteen Thousand Dollars (\$15,000); provided that, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is Twenty-five Hundred Dollars (\$2500) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided that, such designation shall not prevent any Working Interest Owner from appearing in person at its own expense or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; provided that, the audits shall

- (a) not be conducted more than once each year
except upon the resignation or removal of Unit Operator,
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, and
- (c) be made upon not less than thirty (30) days written notice to Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit D.

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

3.2.10 Assignment to Committees. The appointment of committees to study any problems in connection with Unit Operations.

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

3.2.12 The enlargement of the unit area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall in writing inform Unit Operator of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than ten per cent (10%). No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from adding items to the agenda, provided such amendments or additions to the agenda are submitted in writing to all Working Interest Owners at least five (5) days in advance of the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

4.3.2 Vote Required - Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of three (3) or more Working Interest Owners

owning a combined voting interest of at least sixty-five per cent (65%); provided that, should any one Working Interest Owner have more than thirty-five per cent (35%) voting interest, its negative vote or failure to vote shall not serve to defeat a motion, and such motion shall pass if approved by a majority voting interest unless such negatively voting or non-voting Working Interest Owner is supported by the vote of two or more Working Interest Owners having a combined voting interest of five per cent (5%).

4.3.3 Vote at Meeting by Nonattending Working Interest Owner.

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

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

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

5.2.1 Access to Unit Area. Access to the unit area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished

by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

ARTICLE 6

UNIT OPERATOR

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

6.2 Resignation or Removal. Unit Operator may resign at any time. Working Interest Owners may remove Unit Operator at any time by the affirmative vote of at least ninety per cent (90%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of three (3) months after the resignation or discharge, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of at least eighty per cent (80%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit

Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the unit area free from all liens and encumbrances occasioned by Unit Operations, except the lien of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep correct books, accounts, and records of Unit Operations.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations.

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Fifteen Thousand Dollars (\$15,000) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

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

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Unit Operator shall, beginning in the first calendar year after the effective date hereof, make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; provided that, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or in respect of the production or handling of its share of Unitized Substances.

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator shall with respect to Unit Operations purchase or provide for the benefit of the joint account protection comparable to that afforded under standard form policies of insurance as follows:

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

9.1.2 Employer's Liability Insurance with a limit of \$25,000 for any one employee.

9.1.3 Public Liability Insurance, both bodily injury and death, with limits of not less than \$100,000 as to any one person, and \$200,000 as to any one accident, and Property Damage Liability Insurance with a limit of not less than \$50,000 per accident with the exception of the first \$5,000 property damage in any one accident.

9.1.4 Automobile Public Liability Insurance with bodily injury

limits of not less than \$100,000 as to any one person and \$200,000 as to any one accident, and Automotive Property Damage Insurance with a limit of not less than \$50,000 as to any one accident.

9.1.5 Such additional insurance as may be hereinafter required by the Working Interest Owners.

9.2 Charges for Insurance and Losses. Unit Operator shall charge to the joint account an amount equal to the premium applicable to the protection provided. All losses not covered by standard form policies of insurance for the hazards set out above shall be borne by the parties hereto as their interests appear at the time of any loss. Premiums for Automobile Public Liability and Property Damage Insurance of Unit Operator's fully owned equipment, shall not be charged directly to the joint account, but will, instead, be covered by the flat rate charges assessed the Unit for use of such equipment.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

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

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

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate, as determined by the Working Interest Owners, the personal property taken over. Such inventories shall include and be limited to those items of equipment normally considered controllable by operators of oil and gas properties as indicated

in the "Materials Classification Manual," revised 1960, prepared by the Petroleum Accountants Society of Oklahoma, except that certain items normally considered noncontrollable, such as sucker rods, Kobe tubing of sizes less than two inches (2"), bottom hole pumps, and other items as agreed upon by the Working Interest Owners may be included in the inventory in order to ensure a more equitable adjustment of investments. Casing shall be included in the inventory for record purposes but shall be excluded from pricing and investment adjustment. Immediately following completion, such inventory shall be priced as determined by the Working Interest Owners.

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

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

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

10.6 Adjustment for Nonusable Wells. All wells delivered to the Unit Operator shall be in usable physical condition to produce Unitized

Substances on the effective date. If any such well is determined by the Working Interest Owners to be in nonusable physical condition within three (3) months after the effective date hereof, the cost of placing such well in usable physical condition shall be charged to the Working Interest Owners owning such well immediately prior to the effective date. The amount of such charge shall in all respects be treated as any other item of Unit Expense chargeable against such Working Interest Owners.

ARTICLE 11

UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development, operation, and supervision of the unit area. Working Interest Owners shall reimburse Unit Operator for all such costs and expenses, in proportion to their respective Unit Participation. All charges, credits and accounting for costs and expenses shall be in accordance with Exhibit "D".

11.2 Budgets. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and, on or before the first day of each October thereafter, shall prepare such a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall promptly be furnished to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the fifteenth (15) day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days after receipt thereof, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close

of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its oil and gas rights in each Tract, its share of Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of Unit Expense, together with interest thereon at the rate of eight per cent (8%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. The Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by the Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expenses shall be subrogated to the lien and rights herein granted Unit Operator.

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result

thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participations; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

ARTICLE 12

NONUNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas or other minerals, from other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

12.2 Multiple Completions. While each Working Interest Owner shall deliver possession of all its wells completed in the Unitized Formation as provided in Article 10, there is expressly reserved unto such Working Interest Owner the right to use such wells for the purpose of exploring, developing, and operating, by means of multiple completion, such other sources of supply that may overlies or underlie the Unitized Formation; provided that, such Working Interest Owner shall, at its sole cost, risk, and expense, explore, develop, and operate such other sources of supply and furnish and install equipment necessary to segregate the production from such other sources of supply from the Unitized Substances, both in

the well and on the surface, in a manner prescribed by Working Interest Owners. If it becomes necessary to work over, recondition, or redrill a well by reason of operations for production from such other sources of supply, or abandonment thereof, the workover, reconditioning, or redrilling shall be done by and at the sole cost, risk, and expense of such Working Interest Owner and under the supervision of the Unit Operator. If it becomes necessary to work over, recondition, or redrill a well by reason of the development, operation, or abandonment of the Unitized Formation in a multiply completed well, the workover, reconditioning, or redrilling shall be done by Unit Operator under the supervision of Working Interest Owners, and any extra expense incurred in the workover, reconditioning, or redrilling resulting from or occasioned by the well being a multiply completed well shall be borne by the Working Interest Owner producing from the other source of supply in the well. The term "extra expense" means the difference between the normal charges incurred in working over, reconditioning, or redrilling a multiply completed well and the normal charges for doing the same work on a well which is not multiply completed. The Unit Operator shall furnish the Working Interest Owner with an estimate of such charges prior to the commencement of the work. Before any Working Interest Owner shall commence the working over, reconditioning, or redrilling of any well included in the Unit, the permission of Working Interest Owners shall be secured. In an emergency, or if the Working Interest Owner fails to comply with the requirements of Working Interest Owners, Working Interest Owners shall have the authority to perform all work necessary to protect the Unitized Formation. If there is a conflict of interest between the Unit and any Working Interest Owner with respect to a multiply completed well, or the operation thereof, the interest of the Unit shall prevail. Except for bad faith or gross negligence, neither the Unit nor the Unit Operator shall be liable or responsible for any damage to or loss of production from any other sources of supply, nor for damage to the property, equipment, or facilities of a Working Interest Owner used in the development and operations of a multiply completed well.

ARTICLE 13

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibit C, and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; provided that, such indemnity shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

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

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

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

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Twenty-Five Hundred Dollars (\$2,500) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall

assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15

INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Each Working Interest Owner hereby elects that it and the operations covered by this agreement be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such additional or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to applicable state laws, regulations, and rulings now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

ARTICLE 16

NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail

or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners who do not desire to withdraw, all its right to explore, develop, and operate the lands within the Unit Area for the production of Unitized Substances and the right to share in the production so obtained and/or the proceeds thereof together with its interest in all Unit Equipment and in all wells used in Unit Operations. Such transfer shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the transfer, which delivery may be made to Unit Operator as Agent for the transferees. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay transferor for its interest in Unit Equipment the fair net salvage value thereof less its proportionate share of the costs of terminating the Unit as estimated and fixed by Working Interest Owners. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

ARTICLE 18

CREATION OF NEW INTEREST

18.1 Creation of New Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, or other similar interest, hereafter referred to as "new interest," out of its interest subject to this agreement, such new interest shall be subject to all the terms and provisions of this

agreement. In the event the Working Interest Owner owning the interest from which the new interest was created withdraws from this agreement under the terms of Section 17.1, or fails to pay any expenses and costs chargeable to it under this agreement and the production to the credit of such Working Interest Owner is insufficient for that purpose, the owner of the new interest will be liable for the pro rata portion of all costs and expenses which the original Working Interest Owner creating such new interest would have been liable for by virtue of his ownership of the new interest, had the same not been transferred. In this event, the lien provided for in Section 11.5 may be enforced against such new interest. If the owner of the new interest bears a portion of the costs and expenses or the same is enforced against such new interest, the owner of the new interest will be subrogated to the rights of the Unit Operator with respect to the interest primarily chargeable with such costs and expenses.

ARTICLE 19

ABANDONMENT OF WELLS

19.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the unit area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well.

The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

19.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located thereon which is proposed for abandonment,

Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

ARTICLE 20

EFFECTIVE DATE AND TERM

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

20.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 21, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 21

ABANDONMENT OF OPERATIONS

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

21.1.1 Oil and Gas Rights. Oil and gas rights in and to each separate Tract shall no longer be affected by this agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

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

21.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically

and reasonably be salvaged, and shall cause the wells to be plugged and abandoned properly.

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

ARTICLE 22

EXECUTION

22.1 Original, Counterpart, or Other Instrument. A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

ARTICLE 23

SUCCESSORS AND ASSIGNS

23.1 Successors and Assigns. The provisions hereof shall be covenants running with the lands, leases, and interests covered hereby, and shall be binding upon and inure to the benefit of the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto.

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

WORKING INTEREST OWNERS

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
PHILLIPS PETROLEUM COMPANY		ATTEST:

By _____
Vice President

By _____
Assistant Secretary

WITNESS:

_____	_____	_____
_____	_____	_____
_____	_____	_____

STATE OF _____)
COUNTY OF _____) ss

CORPORATION ACKNOWLEDGMENT

On this _____ day of _____, 1965, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ of _____ a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

JOINT ACKNOWLEDGMENT
(Husband and Wife)

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____ and _____, his wife.

My Commission Expires:

Notary Public in and for said
County and State

STATE OF _____)
COUNTY OF _____) ss

INDIVIDUAL ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____.

My Commission Expires:

Notary Public in and for said
County and State

WORKING INTEREST OWNERSHIP AND PARTICIPATION
NOVEMBER 1, 1965

TRACT NO.	WORKING INTEREST OWNER	PERCENT WI IN TRACT	UNIT PARTICIPATION
1	CALIFORNIA OIL COMPANY	100.00000	.85600
2	BROSECO CORPORATION	47.50000	.45273
2	PENROSE PRODUCTION COMPANY	50.00000	.47657
2	RICH, JOHN B.	2.50000	.02383
3	PAN AMERICAN PETROLEUM CORP.	100.00000	1.07606
4	MOBIL OIL COMPANY	100.00000	.87470
5	SHELL OIL COMPANY	100.00000	3.55642
6	PHILLIPS PETROLEUM COMPANY	100.00000	.49774
6A	PHILLIPS PETROLEUM COMPANY	100.00000	3.66925
6B	PHILLIPS PETROLEUM COMPANY	100.00000	2.04054
6C	PHILLIPS PETROLEUM COMPANY	100.00000	3.38748
6D	PHILLIPS PETROLEUM COMPANY	100.00000	2.07226
6E	PHILLIPS PETROLEUM COMPANY	100.00000	8.28375
6F	PHILLIPS PETROLEUM COMPANY	100.00000	11.73456

EXHIBIT C - PART 1
TO UNIT OPERATING AGREEMENT
VACUUM ABQ UNIT

WORKING INTEREST OWNERSHIP AND PARTICIPATION
NOVEMBER 1, 1965

TRACT NO.	WORKING INTEREST OWNER	PERCENT WI IN TRACT	UNIT PARTICIPATION
6G	PHILLIPS PETROLEUM COMPANY	100.00000	.54810
6H	PHILLIPS PETROLEUM COMPANY	100.00000	.00000
6I	PHILLIPS PETROLEUM COMPANY	100.00000	1.68849
7	SHELL OIL COMPANY	100.00000	3.68936
8	MOBIL OIL COMPANY	100.00000	6.70166
9	MARATHON OIL COMPANY	100.00000	.12217
10	CALIFORNIA OIL COMPANY	100.00000	9.52813
11	SHELL OIL COMPANY	100.00000	4.60579
12	GETTY OIL COMPANY	100.00000	.83782
13	AZTEC OIL AND GAS COMPANY	7.69812	1.90590
13	CALIFORNIA OIL COMPANY	36.54368	9.04752
13	CITIES SERVICE OIL COMPANY	1.91708	.47463
13	MARATHON OIL COMPANY	7.67406	1.89995
13	PHILLIPS PETROLEUM COMPANY	23.07270	5.71236
13	SHELL OIL COMPANY	7.69812	1.90591
13	TIDEWATER OIL COMPANY	15.39624	3.81182

WORKING INTEREST OWNERSHIP AND PARTICIPATION
NOVEMBER 1, 1965

TRACT NO.	WORKING INTEREST OWNER	PERCENT WI IN TRACT	UNIT PARTICIPATION
14	SHELL OIL COMPANY	100.00000	4.86430
15	SKELLY OIL COMPANY	100.00000	3.65420
	GRAND TOTAL		100.00000

WORKING INTEREST OWNERS AND PARTICIPATION
 NOVEMBER 1, 1965

WORKING INTEREST OWNER	TRACT NO.	UNIT PARTICIPATION	
		OWNER BY TRACTS	OWNER TOTAL
AZTEC OIL AND GAS COMPANY	13	1.90590	1.90590
BROSECO CORPORATION	2	.45273	.45273
CALIFORNIA OIL COMPANY	1	.85600	
	10	9.52813	
	13	9.04752	19.43165
CITIES SERVICE OIL COMPANY	13	.47463	.47463
GETTY OIL COMPANY	12	.83782	.83782
MARATHON OIL COMPANY	9	.12217	
	13	1.89995	2.02212
MOBIL OIL COMPANY	4	.87470	
	8	6.70166	7.57636
PAN AMERICAN PETROLEUM CORP.	3	1.07606	1.07606
PENROSE PRODUCTION COMPANY	2	.47657	.47657
PHILLIPS PETROLEUM COMPANY	6A	3.66925	
	6B	2.04054	
	6C	3.38748	

WORKING INTEREST OWNERS AND PARTICIPATION
NOVEMBER 1, 1965

WORKING INTEREST OWNER	TRACT NO.	UNIT PARTICIPATION	
		OWNER BY TRACTS	OWNER TOTAL
RICH, JOHN B.	6D	2.07226	
	6E	8.28375	
	6F	11.73456	
	6G	.54810	
	6H	.00000	
	6I	1.68849	
	6	.49774	
	13	5.71236	39.63453
	2	.02383	.02383
SHELL OIL COMPANY	5	3.55642	
	7	3.68936	
	11	4.60579	
	13	1.90591	
	14	4.86430	18.62178
SKELLY OIL COMPANY	15	3.65420	3.65420
TIDEWATER OIL COMPANY	13	3.81182	3.81182
GRAND TOTAL			100.00000

EXHIBIT " D "

Attached to and made a part of UNIT OPERATING AGREEMENT
VACUUM ABO UNIT
Lea County, New Mexico

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

"Joint Property" shall mean the real and personal property subject to the agreement to which this "Accounting Procedure" is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

Where an agreement or other action of Non-Operators is expressly required under this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the agreement or action of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

4. Statements and Billings

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

A. Statement in detail of all charges and credits to the Joint Account.

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

C. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of ~~ten~~ ^{eight} per cent (~~10%~~ ^{8%}) per annum until paid.

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators to protest or question the correctness thereof; provided however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of the Joint Property as provided for in Section VII.

7. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided however, the making of an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. **Employee Benefits**
Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost; provided however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
4. **Material**
Material purchased or furnished by Operator for use on the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.
5. **Transportation**
Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:
A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.
6. **Services**
A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.
7. **Damages and Losses to Joint Property**
All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. **Legal Expense**
All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. **Taxes**
All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.
10. **Insurance Premiums**
Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.
11. **Other Expenditures**
Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

- ☐ Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- ☒ Paragraph 4. (Combined fixed rate)

1. **District Expense**
Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's _____ office located at or near _____ (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.
2. **Administrative Overhead**
Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. **Operator's Fully Owned Warehouse Operating and Maintenance Expense**
(Describe fully the agreed procedure to be followed by the Operator.)

4. **Combined Fixed Rates**

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
All depths	\$600	\$105	\$90	\$75

Said fixed rate ~~(shall)~~ (shall not) include salaries and expenses of production foremen.

5. **Application of Administrative Overhead or Combined Fixed Rates**

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

(1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.

(2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.

(3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.

(4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be counted in determining the number of wells being drilled or operated under for such month; provided, however, that such provision notwithstanding, shut-in wells shall be counted in determining the charges hereunder for such month if said wells contribute allowable production that is actually produced during such month from one or more other Unit wells as a result of allowable transfer, inclusion in a unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during such month.

(5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.

(6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.

C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.

D. The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:

A. Total cost less than \$25,000, no charge.

B. Total cost more than \$25,000 but less than \$100,000, 3 % of total cost.

C. Total cost of \$100,000 or more, 3 % of the first \$100,000 plus 1 % of all over \$100,000 of total cost.

Total cost shall mean the total gross cost of any one project. For the purpose of this Paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.

7. The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. **Purchases**

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

2. **Material furnished from Operator's Warehouse or Other Properties**

A. New Material (Condition "A")

(1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.

(2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.

(3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

(1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.

(2) Material which cannot be classified as Condition "B" but which,

(a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.

(3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

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

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

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the Joint Property.

1. Material Purchased by the Operator or Non-Operators

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

2. Division in Kind

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

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

A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or

B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

4. Other Used Material

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

A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

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

5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. Junk Material

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

7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.