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OIL CONSERVATION COMM.
SANTA FE

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

APPLICATION OF MARATHON OIL)
COMPANY FOR APPROVAL OF THE)
SOUTH EUNICE (SEVEN RIVERS,)
QUEEN) UNIT AGREEMENT AND)
WATERFLOOD PROJECT, LEA)
COUNTY, NEW MEXICO.)

Case No. 4615

APPLICATION

Comes now the MARATHON OIL COMPANY, by its attorneys, and applies to the New Mexico Oil Conservation Commission for approval of the South Eunice (Seven Rivers, Queen) Unit Agreement and Waterflood Project, and in support of its application states:

1. Applicant seeks approval of the South Eunice (Seven Rivers, Queen) Unit Agreement covering 1840 acres of state and fee lands located in Sections 23, 24, 25, 26, 35 and 36, Township 22 South, Range 36 East, Lea County, New Mexico, as more fully described and depicted on Exhibits A, B, and C attached to the said Unit Agreement, copy of which is attached to this application. The unitized formation is as defined in paragraph 2.11 of the said Unit Agreement.

2. Applicant proposes to conduct a waterflood project within the unit area by injecting water into the unitized formation through eight (8) injection wells designated and located as follows:

Marathon McDonald State A/C "1-B" Well No. 20 in I unit.
Location: 1980' from the south line and 660' from the east line of Section 26, T-22-S, R-36-E, Lea County New Mexico.

Marathon McDonald State A/C "1-B" Well No. 21 in E unit.
Location: 1980' from the north line and 660' from the west line of Section 25, T-22-S, R-36-E, Lea County, New Mexico.

Marathon McDonald State A/C "1-B" Well No. 25 in G unit.
Location: 2310' from the north line and 1980' from the east line of Section 26, T-22-S, R-36-E, Lea County, New Mexico.

DOCKET NUMBER

Date 10-14-71

Marathon McDonald State A/C "1-B" Well No. 26 in A. unit.
Location: 660' from the north line and 660' from the
east line of Section 26, T-22-S, R-36-E, Lea County
New Mexico.

Marathon McDonald State A/C "1-B" Well No. 27 in C unit.
Location: 660' from the north line and 1980' from the
west line of Section 25, T-22-S, R-36-E, Lea County,
New Mexico.

Marathon McDonald State A/C "1-B" Well No. 28 in M unit.
Location: 467' from the south line and 467' from the
west line of Section 24, T-22-S, R-36-E, Lea County
New Mexico.

Shell A. L. Christmas "B" Well No. 2 in M unit.
Location: 660' from the south line and 660' from the
west line of Section 25, T-22-S, R-36-E, Lea County,
New Mexico.

Shell A. L. Christmas "B" Well No. 5 in K unit.
Location: 1980' from the south line and 1980' from
the west line of Section 25, T-22-S, R-36-E, Lea
County, New Mexico.

3. The wells in the unit area are in an advanced stage of depletion and should properly be classified as "stripper" wells. The proposed waterflood project is reasonably expected to recover oil that would otherwise not be recovered, thereby preventing waste.

4. In addition to the eight (8) injection wells referred to above, applicant intends to place an additional fourteen (14) wells on injection during the years 1972 and 1973. Applicant seeks the establishment of an administrative procedure for obtaining approval of these additional injection wells without meeting the well response requirements of Rule 701 E (5).

WHEREFORE, the applicant requests this application be set for hearing before one of the Commission Examiners on October 27, 1971, and that the Commission enter its order approving this application.

MONTGOMERY, FEDERICI, ANDREWS,
HANNAHS & MORRIS

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FINAL

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UNIT AGREEMENT

MARATHON SOUTH EUNICE (SEVEN RIVERS, QUEEN) UNIT

LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of July, 1971, by and between the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof, and herein referred to as the "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 and 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 law (Volume 2, Chapter 7, Article 11, New Mexico Statutes, 1953 Annotated) to consent to and approve the development or operation of State lands under agreements made by lessees of State lands jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by act of the legislature (Sec. 1, Chapter 162, Laws of 1951; Chapter 7, Article 11, Sec. 41, N. M. Stats., 1953 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Volume 9, Part 2, Chapter 65, Article 3, New Mexico Statutes, 1953 Annotated) to approve this Agreement and the Conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interest in the Marathon South Eunice (Seven Rivers, Queen) Unit Area, comprised of the land hereinafter described to give reasonably effective control of operations 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 other benefits obtainable through development and operation

of the Unit Area subject to this Agreement under the terms, conditions, and limitations herein set forth.

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their respective interests in the "Unit Area" and the "Unitized Formation" lying thereunder (as those terms are defined herein) and agree severally among themselves, as follows:

ARTICLE 1

ENABLING ACTS AND REGULATIONS

The oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this Agreement.

ARTICLE 2

DEFINITIONS AS USED IN THIS AGREEMENT

The following terms and expressions as used herein shall mean:

2.1 "Commission" means the Oil Conservation Commission of the State of New Mexico.

2.2 "Commissioner" means the Commissioner of Public Lands of the State of New Mexico.

2.3 "Royalty Interest" or "Royalty" means a right to or interest in any portion of the Unitized Substances or proceeds therefrom other than a Working Interest.

2.4 "Royalty Owner" means a party hereto who owns a Royalty Interest.

2.5 "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. The oil and gas rights which are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest to the extent of seven-eighths (7/8) interest in the Unitized Substances, and as a Royalty Interest with respect to the remaining one-eighth (1/8) interest therein.

2.6 "Working Interest Owner" means a party hereto who owns a Working Interest.

2.7 "Tract" means each parcel of land described as such and given a tract number in Exhibit "B."

2.8 "Tract Participation" means the percentage shown on Exhibit "C" for allocating Unitized Substances to a Tract under this Agreement.

2.9 "Unit Participation" means the sum of the percentages of each Working Interest Owner obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

2.10 "Unit Area" means the land shown on Exhibit "A" and described by Tracts in Exhibit "B," as to which this Agreement becomes effective or to which it may be extended as herein provided.

2.11 "Unitized Formation" means that subsurface portion of the Unit Area commonly known and described as that certain stratigraphic interval occurring between 100' above the base of the Seven Rivers Formation and 350' below sea level; the base of the Seven Rivers Formation being identified as occurring at the log depths of 3,686' (214' below sea level) on the Gamma Ray log run by Schlumberger Well Surveying Corporation in the Marathon Oil Company (formerly the Ohio Oil Company), McDonald State Account 1-B, Well No. 21, which well is situated 660' from the West line and 1980' from the North line of Section 25, Township 22 South, Range 36 East, Lea County, New Mexico.

2.12 "Unitized Substances" means all oil, gas, gaseous substances, sulfur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

2.13 "Unit Operating Agreement" means the Agreement entitled "Unit Operating Agreement, Marathon South Eunice (Seven Rivers, Queen) Unit, Lea County, New Mexico," of the same effective date as the effective date of this Agreement entered into by and between the Unit Operator and by other Working Interest Owners as provided in Article 9 hereof.

2.14 "Unit Operator" means the Working Interest Owner designated by Working Interest Owners hereunder and under the Unit Operating Agreement to develop and operate the Unitized Formation, acting as Unit Operator and not as a Working Interest Owner.

2.15 "Oil and Gas Rights" means the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances or to share in the production so obtained or the proceeds thereof.

2.16 "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.

2.17 "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.

2.18 "Unit Expense" means all cost, 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.

2.19 Unless the context otherwise clearly indicates, words used in the singular includes the plural, the plural includes the singular, and the neuter gender includes the masculine and feminine.

ARTICLE 3

EXHIBITS

3.1 Description of Exhibits. Attached hereto are the following Exhibits which are incorporated herein by reference:

3.1.1 Exhibit "A" is a map showing, to the extent known to Unit Operator, the Unit Area and the boundaries and identity of Tracts and leases in the Unit Area.

3.1.2 Exhibit "B" is a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. 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 being owned by such party.

3.1.3 Exhibit "C" is a schedule showing the Tract Participation of each Tract in the Unit Area which Tract Participation has been calculated upon the assumption that all Tracts within the Unit Area will be committed to this Agreement as of the effective date hereof.

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

3.3 Exhibits considered correct. An Exhibit shall be considered correct until revised as herein provided.

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

3.5 Revising Exhibits. Exhibits "A," "B" and "C" shall be revised by the Unit Operator whenever changes render such revision necessary, or when requested by the Commissioner, and Unit Operator shall certify and file at least two copies with the Commissioner and one copy with the Commission and a copy for record with the County Clerk of the county in which the lands are located.

ARTICLE 4

EXPANSION OF UNIT AREA

4.1 Procedure for Expansion. The above described Unit Area may, when practicable, be expanded to include therein any additional tract or tracts whenever their inclusion or such expansion is reasonably necessary or advisable to conform with the purposes of this Agreement. Such expansion shall be effected in the following manner:

4.1.1 The Working Interest Owner or Owners of a tract or tracts desiring to bring such tract or tracts into this Unit shall file an application requesting the inclusion thereof with Unit Operator.

4.1.2 Unit Operator, with the concurrence of at least three Working Interest Owners having in the aggregate ninety percent (90%) of the then Final Unit Participation and after preliminary concurrence by the Commissioner and the Commission, shall prepare a notice of proposed expansion describing the contemplated changes in the Unit Area, the reasons therefor, the Unit Participation to be assigned to each Tract in the expanded Unit Area and the proposed effective date thereof.

4.1.3 Unit Operator shall deliver copies of said notice to the Commissioner and the Commission and mail copies thereof to the last known address of each Working Interest Owner, lessee and lessor whose interests are affected, advising that thirty (30) days will be allowed for submission to the Unit Operator of any objections to the proposed expansion.

4.1.4 Upon expiration of said thirty (30) day period, Unit Operator shall file with the Commissioner and the Commission (1) evidence of mailing or delivering the notice of expansion, (2) application for approval of such expansion, (3) an instrument showing the appropriate joinders in compliance with the provisions of Article 14 hereof, and (4) copies of any objections received by Unit Operator.

4.2 Effective date of Expansion. The expansion shall, upon approval by the Commissioner and the Commission, become effective as of the date prescribed in the notice thereof.

4.3 Revised Tract Participation. In any approved expansion of the Unit Area, the revised Tract Participation of those Tracts which are committed prior to each such expansion shall remain in the same ratio one to another.

ARTICLE 5

UNITIZED LAND AND UNITIZED SUBSTANCES

5.1 Unitized Land and Unitized Substances. All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "land subject to this Agreement." Substances committed to this Agreement are referred to herein as "Unitized Substances", defined in Article 2.12 hereof. Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as above described.

ARTICLE 6

PLAN OF OPERATIONS

6.1 Unit Operator. Marathon Oil Company is hereby designated as the Unit Operator and by signing this instrument as Unit Operator agrees and con-

sents to accept the duties of Unit Operator for the operations, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of an interest in Unitized Substances; and the term "Working Interest Owner" when used herein shall include or refer to the Unit Operator as the owner of a Working Interest when such an interest is owned by it.

ARTICLE 7

RESIGNATION OR REMOVAL OF UNIT OPERATOR

7.1 Resignation. 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 or terminate Unit Operator's rights, as such, until the expiration of a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and served on the Commissioner and Commission, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

7.2 Removal of Unit Operator. The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal only by the affirmative vote of Working Interest Owners other than the Unit Operator having in the aggregate at least eighty-five percent (85%) of the then Final Unit Participation excluding the Unit Operator's then Final Unit Participation. Such removal shall be effective upon notice thereof to the Commissioner.

7.3 Rights and Responsibilities of Unit Operator on Resignation or Removal. 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 interests in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books and records, materials, appurtenances and any other assets used in conducting the Unit Operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to

the new duly qualified successor Unit Operator, or to the owner thereof, if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or default by it hereunder accruing prior to the effective date of its resignation or removal.

ARTICLE 8

SUCCESSOR UNIT OPERATOR

8.1 Successor Unit Operator. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by the Working Interest Owners, voting in the manner provided in the Unit Operating Agreement. If the Unit Operator that is removed fails to vote or votes only to succeed itself, such vote or failure to vote shall not be considered for any purpose. Such selection of a successor Unit Operator 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 is selected as herein provided, the Commissioner may, at his election, declare this Unit Agreement terminated.

ARTICLE 9

ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

9.1 Accounting Provisions and Unit Operating Agreement. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be apportioned among, borne and paid by the Working Interest Owners all in accordance with this Unit Agreement and the Unit Operating Agreement. The 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 hereunder in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, the Unit Operating Agreement shall not 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. In case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, the Unit Agreement shall prevail. One true copy of any Unit Operating Agreement executed pursuant to this Article shall be filed with the Commissioner.

ARTICLE 10

RIGHTS AND OBLIGATIONS OF UNIT OPERATOR

10.1 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 (including surface rights) which are necessary or convenient for the prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby granted and delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Unit 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, lease, Royalty Interest, 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.

ARTICLE 11

PLAN OF OPERATIONS

11.1 Plan of Operations. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement has been reasonably proven to be productive of Unitized Substances in paying quantities or is necessary for Unit operations and that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect a greater recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Commissioner and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, and any other substance or a combination of any of said substances, whether produced from the Unitized Formation 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. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary recovery operations, Unit Operator shall furnish the Commissioner and the Commission monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Commission shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this Agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and the Commission.

11.2 Initial Plan of Operation. The initial plan of operation shall be filed with the Commissioner and the Commission 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 and the Commission 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. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

ARTICLE 12

EASEMENT OR USE OF SURFACE

12.1 Grant of Easements. The parties hereto, to the extent of their rights and interests, hereby grant to Unit Operator the right to use Easements of the surface of the land within the Unit Area as may reasonably be necessary for Unit Operations.

12.2 Surface Damages. Working Interest Owners shall pay the Owner for damages to growing crops, timber, fences, improvements and structures on the Unit Area that result from Unit Operations, but only to the extent that Working Interest Owners are otherwise legally obligated to pay such damages.

ARTICLE 13

TRACT PARTICIPATION

13.1 Tract Participation. The Initial Tract Participation and the Final Tract Participation of each Tract are shown in Exhibit "C".

The Initial Tract Participation was determined by the formula:

$$\begin{aligned} &25\% \times \frac{\text{Tract Oil Equivalent of Oil and Gas Rate}}{\text{Sum of Oil Equivalent of Oil and Gas Rate of all Tracts}} \quad \text{plus} \\ &75\% \times \frac{\text{Tract Oil Equivalent of Remaining Primary Oil and Gas Reserves}}{\text{Sum of Oil Equivalent of Remaining Primary Oil and Gas Reserves of all Tracts}} \end{aligned}$$

The Final Tract Participation was determined by the formula:

$$100\% \times \frac{\text{Tract Ultimate Primary Oil Reserve}}{\text{Sum of Tract Ultimate Primary Oil Reserve of all Tracts}}$$

As used in the above formulae,

(a) Tract Oil Equivalent of Oil and Gas Rate means the volume of oil in barrels produced from a Tract from the Unitized Formation from January 1, 1969 until October 1, 1969, plus the volume of gas in MCF produced from such tract from January 1, 1969 to September 1, 1969 divided by 30.8.

(b) Tract Oil Equivalent of Remaining Primary Oil and Gas Reserves means the estimated remaining primary oil production in barrels from a Tract from the Unitized Formation after October 1, 1969, plus the estimated remaining primary gas production in MCF after October 1, 1969 divided by 30.8.

(c) Tract Ultimate Primary Oil Reserve means the estimated cumulative oil produced from a Tract from the Unitized Formation at abandonment if no secondary recovery program is implemented.

Such percentages of Tract Participation have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this Agreement as of the effective date hereof, and such Tract Participations shall govern the allocation of all Unitized Substances produced after the effective date hereof, subject, however, to any revision or revisions of the Unit Area and consequent revision of Exhibit "C" in accordance with the provisions of this Agreement.

The Initial Tract Participation shall be in effect from the effective date of this Agreement until the first day of the calendar month next following the month in which the last barrel of estimated primary oil production has been produced. The estimated remaining primary oil production shall be ninety-one thousand four (91,004) barrels of oil less the volumes of oil produced from all of the Tracts shown on Exhibit "C" attached hereto during the period from

October 1, 1969 to the effective date. In the event the Unit Area is composed of less than all of the Tracts shown on Exhibit "C", the estimated remaining primary oil production, as determined above, shall be further reduced by subtracting the remaining primary oil production assigned to the non-committed Tracts. The Final Tract Participation shall be in effect during and after 7 a.m. on the first day of the calendar month next following the month in which the last barrel of estimated primary oil production is produced.

13.2 Reduced Unit Area. In the event less than all of the Tracts are committed hereto as of the effective date hereof, Unit Operator shall promptly file with the Commissioner and Commission at least two copies of revised Exhibits "B" and "C" setting forth in Exhibit "C" the revised Tract Participations opposite each of the qualified Tracts, which shall be calculated by using the Tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C", unless disapproved by the Commissioner and the Commission within the thirty (30) days after filing, shall supersede, effective as of the effective date of this Agreement, the original Exhibits "B" and "C" attached hereto until a further revision or revisions thereof is approved by the Commissioner and the Commission. The Tract Participations shown on Exhibits "B" and "C" attached hereto, or as may be shown on revised Exhibits "B" and "C" as above provided, shall govern the allocation of Unitized Substances on and after the effective date of this Unit Agreement, and until the Tract Participation Schedule is revised pursuant to this Agreement and is approved by the Commissioner and the Commission.

13.3 Subsequent Enlargement. If, subsequent to the effective date of this Agreement, any additional Tract becomes committed hereto under the provisions of Article 4 hereof, or Article 29 hereof, or any committed Tract is excluded herefrom under the provisions of Article 28 hereof, Unit Operator shall revise said Exhibits "B" and "C," or the latest revision thereof, as the case may be, to show the new percentage participations of the then committed Tracts, which revised Exhibits shall, upon their approval by the Commissioner and Commission, supersede, as of their effective date, the last previously effective Exhibits "B" and "C." In any such revision of Exhibit "C" the revised percentage participations of the respective Tracts listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another.

ARTICLE 14

TRACTS QUALIFIED FOR UNIT PARTICIPATION

14.1 Qualification of Tracts. 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" which corner or have a common boundary (Tracts

separated only by a public highway or a railroad right of way shall be considered to have a common boundary), and that otherwise qualify as follows:

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

14.1.2 Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (a) 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 (b) ninety percent (90%) of the combined voting interests of Working Interest Owners in all Tracts that meet the requirements of Article 14.1.1 hereof, have voted in favor of the inclusion of such Tract. For the purpose of this Section 14.1.2, the voting interest of a Working Interest Owner shall be equal to the ratio (expressed as a percent) that its Final Unit Participation attributable to Tracts that qualify under Section 14.1.1 hereof, bears to the total Final Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under said Section 14.1.1.

14.1.3 Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto, and as to which (a) the Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract in the Unit Area, and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands that may be made by the owners of Working 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 (b) ninety percent (90%) of the combined voting interest of Working Interest Owners in all Tracts that meet the

requirements of Articles 14.1.1 and 14.1.2 hereof have voted in favor of the inclusion of such Tract and to accept the indemnity agreements. For the purpose of this Section 14.1.3, the voting interest of each Working Interest Owner shall be equal to the ratio (expressed as a percent) that its Final Unit Participation attributable to Tracts that qualify under Sections 14.1.1 and 14.1.2 hereof bears to the total Final Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under said Sections 14.1.1 and 14.1.2. Upon the inclusion of such a Tract in the Unit Area, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, in proportion to their respective Working Interests in the Tract.

ARTICLE 15

ALLOCATION OF UNITIZED SUBSTANCES

15.1 Allocation to Tracts. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices in Unit Operations on the Unitized Area for drilling, operating, camp and other production or development purposes and for pressure maintenance or unavoidable loss) from the effective date hereof until the first day of the calendar month next following the month in which the last barrel of estimated remaining primary production has been produced, shall be allocated to the several Tracts in accordance with the Initial Tract Participations. The estimated remaining primary oil production shall be ninety one thousand and four (91,004) barrels of oil less the volumes of oil produced from all of the Tracts shown on Exhibit "C" attached hereto during the period from October 1, 1969, to the effective date. In the event the Unit Area is composed of less than all of the Tracts shown on Exhibit "C" the estimated remaining primary oil production, as determined above, shall be further reduced by subtracting the remaining primary oil production assigned to the noncommitted Tracts. All Unitized Substances produced, except any part of such Unitized Substances used in Unit Operations, during and after 7:00 A.M. on the first day of the calendar month next following the month in which the last barrel of estimated remaining primary oil production is produced, shall be allocated to the several Tracts in accordance with the Final Tract Participations. The amount of Unitized Substances so allocated to each Tract, regardless of whether it is more or less than the actual

production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

15.2 Distribution Within Tracts. The Unitized Substances allocated to each Tract shall be distributed among, or accounted for, to the parties executing, consenting to or ratifying this Agreement and entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal force and effect. No Tract committed to this Agreement and qualified for participation, as heretofore provided, shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract, and nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the joinder of any Tract.

15.3 Division of Tract Ownership. If after the effective date hereof, the Working Interest or Royalty Interest in any Tract is divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participation assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

15.4 Taking Unitized Substances in Kind. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Article 17 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party (excepting the State of New Mexico) receiving the same in kind.

15.5 Failure to Take in Kind. If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

15.6 Responsibility for Royalty Settlements. 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 shall be responsible for making payment of all royalty to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

ARTICLE 16

PRODUCTION AS OF THE EFFECTIVE DATE

16.1 Oil in Lease Tanks. Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipeline connections, as of 7:00 A.M. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provisions of the applicable lease or 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 effective date hereof.

16.2 Overproduction. 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.

ARTICLE 17

ROYALTY SETTLEMENT

17.1 Royalty on Unitized Substances. The State of New Mexico and all Royalty Owners, who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

17.2 Royalty on Outside Substances. If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation 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 and the Commission, 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 formulae as may be prescribed or approved by the Commissioner; and provided further, that such right of withdrawal shall terminate on the effective date of termination of this Agreement. Any liquefied petroleum gases or liquid hydrocarbons obtained from lands or formations not subject to this Agreement may be injected into the Unitized Formation 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 and liquid hydrocarbons may be withdrawn royalty free pursuant to such conditions and formulae as may be prescribed or approved by the Commissioner.

17.3 Basis for Royalty Settlement. All Royalty 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.

17.4 Failure of Royalty Owner's Title. 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, or otherwise, in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interests of all parties shall be adjusted accordingly.

ARTICLE 18

RENTAL SETTLEMENT

18.1 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 on 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, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

ARTICLE 19

CONSERVATION

19.1 Conservation. Operations hereunder and production of Unitized Substances shall be conducted so as to provide the most economical and efficient recovery of said substances without waste, as defined by State of New Mexico laws and regulations.

ARTICLE 20

DRAINAGE

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

ARTICLE 21

LEASES AND CONTRACTS CONFORMED AND EXTENDED

21.1 Leases and Contracts Conformed and Extended. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Commissioner, as to State leases, shall by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of 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:

21.1.1 The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract subject to this Agreement, regardless of whether there is any development of any particular part of 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.

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

21.1.3 Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Commissioner or his duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized land.

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

21.1.5 Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to that portion committed and as to that portion not committed, and the terms of such lease shall apply separately 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, any such lease which has only a portion of its lands committed hereto 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.

21.1.6 Termination of this Agreement shall not affect the termination date of any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect beyond the termination date of this Agreement.

ARTICLE 22

COVENANTS RUN WITH LAND

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

ARTICLE 23

EFFECTIVE DATE AND TERM

23.1 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. of the first day of the calendar month next following:

23.1.1 The execution or ratification of this Agreement and the Unit Operating Agreement by Working Interest Owners of Tracts comprising eighty-five percent (85%) or more, on a surface acreage basis, of the Unit Area as shown on the original Exhibit "B" and which are qualified under the provisions of Article 14.

23.1.2 The approval of this Agreement by the Commissioner and the Commission.

23.1.3 The filing of at least one counterpart of this Agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and provided further that if the provisions of Articles 23.1.1, 23.1.2 and this Article 23.1.3 are not accomplished on or before April 1, 1972, this Agreement shall ipso facto terminate on said date (hereinafter called "termination date") and thereafter shall be of no further force or effect, unless prior thereto, this Agreement has been executed or ratified by Working Interest Owners owning a combined Final Unit Participation of at least eighty-five percent (85%), and that Working Interest Owners owning in the aggregate eighty-five percent (85%) or more of the total Final Unit Participation committed to this Agreement have decided to extend said expiration date for a period not to exceed six months (hereinafter called "extended expiration date"). If said expiration date is so extended and the provisions of Articles 23.1.1, 23.1.2 and this Article 23.1.3 are not accomplished on or before said extended expiration date, this Agreement shall ipso facto terminate on said extended expiration date and thereafter shall be of no further force or effect.

23.2 Certificate of Effectiveness. Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for record in the office 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.

23.3 Term. The term of this Agreement shall be for and during the time that Unitized Substances are produced in quantities sufficient to pay for the cost of producing same from wells on the Unitized Land and so long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and so long thereafter as Unitized Substances are produced as aforesaid. Termination under this paragraph shall be effective as of the first day of the month after the Unit Operator determines, on confirmatory data satisfactory to the Commissioner, that Unitized Substances are no longer being produced in the aforesaid quantities.

23.4 Termination. This Agreement may be terminated at any time for any other reason, with the approval of the Commissioner, by Working Interest Owners owning ninety percent (90%) of the Final Unit Participation. Notice of any such termination shall be given to all parties hereto and a copy filed by Unit Operator in the office of the County Clerk of Lea County, New Mexico.

23.5 Effect of Termination. Upon termination of this Agreement, 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.

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

ARTICLE 24

APPEARANCES

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

ARTICLE 25

NOTICES

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

ARTICLE 26

NO WAIVER OF CERTAIN RIGHTS

26.1 No Waiver of Certain Rights. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State of New Mexico, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

ARTICLE 27

UNAVOIDABLE DELAY

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

ARTICLE 28

LOSS OF TITLE

28.1 Loss of Title. In the event any Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this Agreement to meet the conditions of Article 14 hereof because of failure of title of any party hereto, such Tract shall be regarded as not committed to this Agreement as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under said Article 14 within ninety (90) days after the date on which such title failure was finally determined. If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and revise Exhibit "C" to show the Tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in

the same ratio one to the other. Copies of the revised schedule and Exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

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

28.3 Royalty Owner Title. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this Agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

28.4 Production Where Title is in Dispute. In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or 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 shall be withheld, but such funds shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of title dispute, and then applied as earned or returned in accordance with such final settlement.

28.5 Unit Operator Not Responsible For Title. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

ARTICLE 29

NONJOINDER AND SUBSEQUENT JOINDER

29.1 Joinder After Effective Date. Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this Agreement by the Working Interest Owners and by the Commissioner, may thereafter be committed hereto upon compliance with the applicable provisions of Article 14 hereof, within a period of sixty (60) days of effective date hereof, on the same basis of participation as provided for in Article 13 hereof, and as set forth in Exhibit "C" 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.

29.2 Subsequent Joinder. It is understood and agreed, however, that after sixty (60) days from the effective date hereof, the right of subsequent joinder as provided in this Article shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Final Unit Participation of not less than ninety percent (90%) and approved by the Commissioner, and provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such subsequent joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement, and where State Land is involved, such joinder must be approved by the Commissioner. Such joinder by a Royalty Owner must be evidenced by its 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 Owners. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner, of duly executed documents necessary to establish effective commitment.

ARTICLE 30

COUNTERPARTS

30.1 Counterparts. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties or it 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.

ARTICLE 31

JOINDER COMMITMENT

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

ARTICLE 32

TAXES

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

ARTICLE 33

BORDER AGREEMENTS

33.1 Border Agreements. Subject to the approval of the Commissioner, the Unit Operator with the concurrence of Working Interest Owners owning at least eighty-five percent (85%) of Final Unit Participation, may enter into a border-protection agreement or agreements with the Working Interest Owners of lands adjacent to the committed Tracts with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

ARTICLE 34

CONFLICT OF SUPERVISION

34.1 Conflict of Supervision. Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree

that all powers and authority vested in the Commission in and by any provisions of this Agreement are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject, in any case, to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

ARTICLE 35

PERSONAL PROPERTY EXCEPTED

35.1 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 interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

ARTICLE 36

NO PARTNERSHIP

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

ARTICLE 37

LAWS AND REGULATIONS

37.1 Laws and Regulations. This Agreement shall be subject to all valid applicable laws, rules, regulations and orders of any governmental body having jurisdiction.

ARTICLE 38

LIEN OF UNIT OPERATOR

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

ARTICLE 39

CORRECTION OF ERRORS

39.1 Correction of Errors. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical or clerical

errors which may exist in the pertinent Exhibits to this Agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Final Unit Participation of eighty-five percent (85%) or more and after approval by the Commissioner.

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

UNIT OPERATOR AND WORKING INTEREST OWNER:

ATTEST:

MARATHON OIL COMPANY

By _____

Date _____

Address _____



WORKING INTEREST OWNERS:

ATTEST:

CONTINENTAL OIL COMPANY

By _____

Date _____

Address _____

ATTEST:

GETTY OIL COMPANY

By _____

Date _____

Address _____

ATTEST:

GULF OIL COMPANY - U.S.

By _____

Date _____

Address _____

ATTEST:

SHELL OIL COMPANY

By _____

Date _____

Address _____

STATE OF TEXAS X
 X
COUNTY OF HARRIS X

The foregoing instrument was acknowledged before me this ____ day
of _____, 1971, by _____,
_____ of MARATHON OIL COMPANY, an Ohio
corporation, on behalf of said corporation.

Notary Public in and for Harris
County, Texas.

My Commission expires _____

STATE OF _____ X
 X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this ____ day
of _____, 1971, by _____,
_____ of CONTINENTAL OIL COMPANY, a(n)
_____ corporation, on behalf of said corporation.

Notary Public in and for _____
County, _____.

My Commission expires _____

STATE OF _____ X
 X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this ____ day
of _____, 1971, by _____,
_____ of GETTY OIL COMPANY, a(n)
_____ corporation, on behalf of said corporation.

Notary Public in and for _____
County, _____.

My Commission expires _____

STATE OF _____ X
 X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this ____ day
of _____, 1971, by _____,
_____, of GULF OIL COMPANY - U.S., a Pennsylvania
corporation, on behalf of said corporation.

Notary Public in and for _____
County, _____.

My Commission expires _____

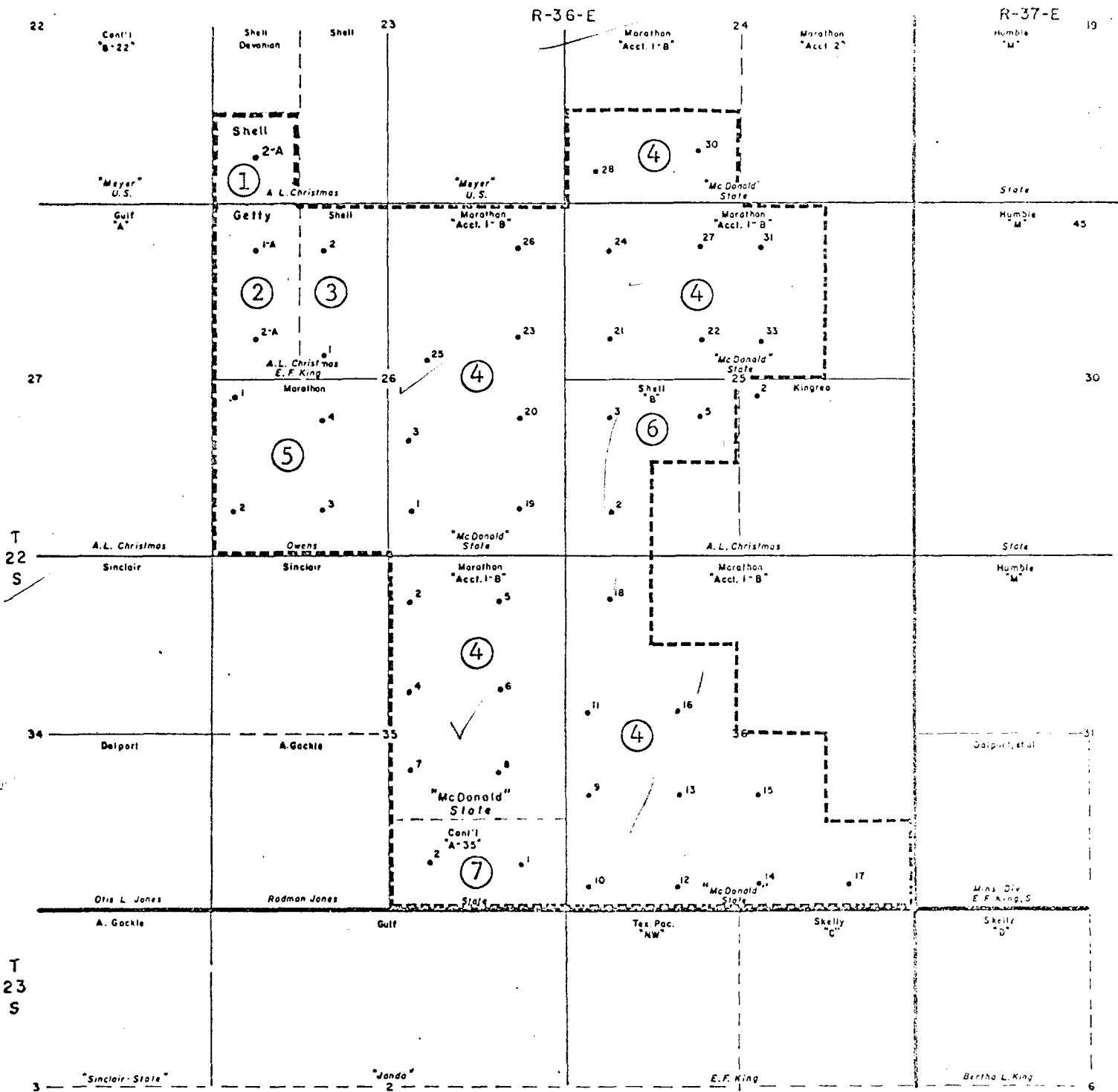
STATE OF _____
COUNTY OF _____

Y
Y
Y

The foregoing instrument was acknowledged before me this _____ day
of _____, 1971, by _____,
_____, of SHELL OIL COMPANY, a(n) _____
corporation, on behalf of said corporation.

Notary Public in and for _____
County, _____

My Commission expires _____



① Tract Number
 --- Unit Boundary

EXHIBIT A
 TO UNIT AGREEMENT
 MARATHON SOUTH RUNICE
 (SEVEN RIVERS, QUEEN) UNIT
 LEA COUNTY, NEW MEXICO

SCALE 0 1000 2000
 FEET

EXHIBIT 1284

MARATHON-SOUTH DUNICE (SEVEN RIVERS, QUEEN) UNIT, JBA COUNTY, NEW MEXICO.

Lease No.	Description of Land	Number of Acres	Serial No. and Date of Lease	Basic Royalty Ownership and Percentages	Lessor of Record	Overriding Royalty Owner and Percentage	Working Interest Owners and Percentage (See Note 1)
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T-22-S, R-36-E, N.W.P.M.

1 Sec. 23: SW¹/₄SW²/₄ 40.00Fee
5-6-26
5-10-46Atlantic Richfield Co. Shell Oil Co.
- 0.78125% Gulf Oil Corp.

None

Shell Oil Co. - 50%
Gulf Oil Corp. - 50%

Joyce C. Brown

- 2.08333%

B. A. Christmas, Jr.

- 1.04167%

B. A. Christmas, Jr., Gdn.

Est. Bradford A. Christmas

- 0.26041%

B. A. Christmas, Jr., Gdn.

Est. Candy Christmas

- 0.26042%

B. A. Christmas, Jr., Gdn.

Est. Helen J. Christmas

- 0.26042%

B. A. Christmas, Jr., Gdn.

Est. Mary T. Christmas

- 0.26041%

Continental Oil Co.

- 0.39063%

Cities Service Oil Co.

- 0.39063%

The Fluor Corporation

- 2.08333%

Southland Royalty Co.

- 3.12500%

Thomas W. Ellison

- 0.09766%

John H. Hendrix

- 0.73241%

Alvin Luskey

- 0.18311%

David Luskey

- 0.18311%

Gary Luskey

- 0.18311%

Louis Luskey - 0.18310%

EXHIBIT "B" (continued)

Tract No.	Description of Land	Number of Acres	Serial No. and Date of Lease	Basic Royalty Ownership and Percentages	Lessees of Record	Overriding Royalty Owner and Percentage	Working Interest Owners and Percentage
2	Sec. 26: W $\frac{1}{2}$ N $\frac{1}{2}$ E $\frac{1}{2}$	80.00	Fee 5-6-26	Atlantic Richfield Co. - 0.781250% Continental Oil Co. - 0.390625% Cities Service Oil Co. - 0.390625% Thomas W. Ellison - 0.097660% John H. Hendrix - 0.732110% Alvin Luskey - 0.183110% David Luskey - 0.183110% Gary Luskey - 0.183110% Louis Luskey - 0.183100% Southland Royalty Co. - 3.125000% The Fluor Corporation - 1.562500% B. A. Christmas, Jr. - 1.171875% B. A. Christmas, Jr., Gdn. Ests. Mary T. Christmas, Bradford A. Christmas, Cady Christmas and Helen Jane Christmas - 1.171875% Joyce C. Brown - 2.343750%	Getty Oil Company	None	Getty Oil Company - 100%
3	Sec. 26: E $\frac{1}{2}$ N $\frac{1}{2}$ E $\frac{1}{2}$	80.00	Fee 5-6-26 5-10-46	Atlantic Richfield Co. - 1.56250% Joyce Ann Brown - 0.31250% Joyce C. Brown - 0.78125% B. A. Christmas, Jr. - 0.78125%	Shell Oil Co.	None	Shell Oil Co. - 100%

Tract No.	Description of Land	Number of Acres	Serial No. and Date of Lease	Basic Royalty Ownership and Percentages	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owners and Percentage
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continued

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EXHIBIT "B" (continued)

Tract No.	Description of Land	Number of Acres	Serial No. and Date of Lease	Basic Royalty Ownership and Percentages	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owners and Percentage
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5
continued

8-1-38 Robert W. Kellough and
8-11-38 Ethel B. Kellough, Joint
8-15-38 Tenants - 0.26042%
10-25-38 The Fluor Corporation
6-1-47 - 3.90625%
Ashland Oil & Refg. Co.
- 0.39063%
The First National Bank and
Trust Co. of Oklahoma City,
Trustee - 0.26041%
Oil Finders, Inc.
- 0.78125%
W. T. Braly, Jr., Ind. Exec. Est.
of Ethel Shipley Braly, dec'd.
- 6.25000%

6 Sec. 25: W $\frac{1}{2}$ SW $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ 120.00

Fee
5-6-26
5-10-46

Atlantic Richfield Co. Shell Oil Co.
- 0.78125% Gulf Oil Corp.
Joyce Ann Brown
- 0.46875%
Joyce C. Brown
- 1.17187%
B. A. Christmas, Jr.
- 1.17188%
B. A. Christmas, Jr., Tr.
U/W B. A. Christmas, Sr.
- 1.87500%
Continental Oil Co.
- 0.39062%
Cities Service Oil Co.
- 0.39063%
The Fluor Corporation
- 1.56250%
Thomas W. Ellison
- 0.09766%
John H. Hendrix
- 0.73241%

None

Shell Oil Co. - 50%
Gulf Oil Corp. - 50%

EXHIBIT "B" (continued)

Tract No.	Description of Land	Number of Acres	Serial No. and Date of Lease	Basic Royalty Ownership and Percentages	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owners and Percentage
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6
continued

Alvin Luskey
- 0.18311%
David Luskey
- 0.18311%
Gary Luskey
- 0.18311
Louis Luskey
- 0.18310%
Southland Royalty Co.
- 3.12500%

7 Sec. 35: S $\frac{1}{2}$ SE $\frac{1}{4}$

80.00 B-2657
9-23-33

State
12.5%

Continental Oil Co. None

Continental Oil Co. - 1

TOTAL ACRES IN UNIT

1,840.00

BEING 1,360.00 ACRES STATE OF NEW MEXICO LAND AND 480.00 ACRES FREE LAND

NOTE 1: The overriding royalty and working interest owners shown above are the owners of such interests as to the Unitized Formations under the lands described. In certain instances, however, such owners may not own the same interests in other formations.

EXHIBIT C

TO UNIT AGREEMENT
MARATHON SOUTH EUNICE (SEVEN RIVERS, QUEEN) UNIT
LEA COUNTY, NEW MEXICO

TRACT PARTICIPATION

<u>Tract No.</u>	<u>Percent Tract Participation</u>	
	<u>Initial</u>	<u>Final</u>
1	0.000000	1.082387
2	0.415807	2.639969
3	0.000000	1.468090
4	63.234346	71.095139
5	12.320011	9.660635
6	11.405190	9.049041
7	<u>12.624646</u>	<u>5.004739</u>
Total	100.000000	100.000000