

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
EAST HENSHAW UNIT
EDDY COUNTY, NEW MEXICO

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THIS AGREEMENT, entered into as of the 1st day of _____, 1975, 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 and Gas Interests in the Unit Area subject to this Agreement; and

WHEREAS, The Mineral Leasing Act of February 25, 1920, (41 Stat. 437, as amended 30 U.S.C. Sections 181 et seq.) authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others in collectively adopting and operating a unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, The Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943 as amended by Section 1 of Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 39, N.M.S. 1953 Ann.) 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. 3, Chap. 88, Laws of 1943, as amended by Sec. 1, Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 41, N.M.S. 1953 Ann.) to amend with the approval of the lessee, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such unitized development and operation of State lands; and

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

WHEREAS, The parties hereto hold sufficient interests in the East Henshaw Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, It is the purpose of the parties hereto to conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the Area subject to this Agreement under the terms, conditions and limitations herein set forth;

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

ARTICLE 1

ENABLING ACT AND REGULATIONS

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

ARTICLE 2

DEFINITIONS

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

2.1 Commissioner is defined as the Commissioner of Public Lands of the State of New Mexico.

2.2 Commission is defined as the Oil Conservation Commission of the State of New Mexico.

2.3 Director is defined as the Director of the United States Geological Survey.

2.4 Secretary is defined as the Secretary of the Interior of the United States of America.

2.5 Department is defined as the Department of the Interior of the United States of America.

2.6 Supervisor is defined as the Oil and Gas Supervisor of the United States Geological Survey, for the Area in which the Unit Area is situated.

2.7 Unit Area is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto, and said land is hereby designated and recognized as constituting the Unit Area.

2.8 Unitized Formation is defined as that portion of the Grayburg Formation commonly known as the Lower Grayburg formation including the productive section in the Premier Sandstone member. The base of the Grayburg is also the base of the Premier Sand and the top of the San Andres formation. This unitized interval is found between 2906 and 3025 feet on the Lane Wells Focused Log dated July 8, 1961, of the Humble Oil and Refining Company New Mexico State "BC" No. 5 Well which is located 3300 feet from the south line and 660 feet from the east line of Section 2, Township 16 South, Range 30 East, Eddy County, New Mexico.

2.9 Unitized Substances is defined as all oil, gas, gaseous substances sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within and produced from the Unitized Formation of the Unitized Land.

2.10 Working Interest is defined as an interest in Unitized Substances by virtue of a lease, operating agreement 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, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this Agreement.

2.11 Royalty Interest is defined as a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest and other than an Overriding Royalty Interest.

2.12 Working Interest Owner is defined as a party hereto who owns a Working Interest.

2.13 Royalty Owner is defined as a party hereto who owns a Royalty Interest.

2.14 Tract is defined as each parcel of land described as such and given a Tract number in Exhibit "B".

2.15 Tract Participation is defined as the percentage of participation shown on Exhibit "C" for allocating Unitized Substances to a Tract under this Agreement.

2.16 Unit Participation is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.

2.17 Oil and Gas Rights is defined as the right to explore, develop, and operate land within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

2.18 Unit Operator is defined as the party designated by Working Interest Owners under the Unit Operating Agreement to develop and operate the Unitized Formation.

2.19 Record Owner is defined as the holder of the record title to a lease covering Federal lands according to the applicable records of the Department of the Interior of the United States of America.

2.20 Tract Cumulative Oil Recovery is defined as the total number of barrels of oil produced from the Unitized Formation under such Tract prior to January 1, 1975, as officially reported to the Commission.

2.21 Unit Area Cumulative Oil Recovery is defined as the total Tract Cumulative Oil Recovery of all Tracts within the Unit Area that are committed to this agreement in accordance with the provisions hereof.

2.22 Productive Acre-Feet is defined as the product of average net feet of pay multiplied by productive acres laterally covered by the area for which the net feet have been averaged as interpreted by the Technical Committee of the Working Interest Owners.

2.23 Unit Operating Agreement is defined as any agreement or agreements (whether one or more) entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Article 10, infra, and shall be styled "Unit Operating Agreement East Henshaw Unit, Eddy County, New Mexico".

2.24 Unit Operations is defined as any operation conducted pursuant to this Agreement and the Unit Operating Agreement.

2.25 Unit Equipment is defined as 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.

2.26 Unit Expense is defined as all cost, expense, or indebtedness incurred pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

2.27 Overriding Royalty Interest is defined as an interest in or right to receive a portion of the Unitized Substances or the proceeds therefrom as an overriding royalty interest, oil payment interest, net profits contracts, or any other payment or burden, exclusive of a Royalty Interest, which does not carry with it the right to search for or produce Unitized Substances.

2.28 Unit Manager is defined as any person or corporation appointed by Working Interest Owners to perform the duties of Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8 hereof.

2.29 Outside Substances is defined as any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.

ARTICLE 3

UNIT AREA

The following described land is hereby designated and recognized as constituting the Unit Area:

Township 16 South, Range 30 East, New Mexico Principal Meridian

SECTION 1: Lots 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15 and 16, SW/4, N/2 of SE/4, and SW/4 of SE/4.

SECTION 2: Lots 9, 10, 15, 16, SE/4 and E/2 of SW/4.

Containing 1282.22 acres, more or less, in Eddy County, New Mexico.

ARTICLE 4

EXHIBITS

4.1 Exhibits. Attached hereto are the following exhibits which are incorporated herein by reference:

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

4.1.2 Exhibit "B", is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner and each Royalty Owner in each Tract.

4.1.3 Exhibit "C", is a schedule showing the percentage of participation each Tract has in the Unit Area.

4.2 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.

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

4.4 Filing Revised Exhibits. Exhibits "A", "B" and "C" shall be revised by the Unit Operator whenever changes render such revision necessary, and at least two copies of such revision shall be filed with the Commissioner, and not less than four copies thereof shall be filed with the Supervisor.

ARTICLE 5

EXPANSION

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

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

(b) After preliminary concurrence by the Director and Commissioner, Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the Unit Participation to be assigned to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if ninety per cent (90%) of the Working Interest Owners (on the basis of Unit Participation) have agreed to such Tract or Tracts being brought into the Unit, then Unit Operator shall:

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

(2) Deliver copies of said notice to the Commissioner, Director, each Working Interest Owner (mailing copy of such notice to the last known address of each such Working Interest Owner) and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon expiration of said thirty (30) day period as set out in (2) immediately above and provided that objections of not more than ten per cent (10%) of the Working Interest Owners have been filed thereto, with the Commission, Commissioner, and the Supervisor the following: (a) Comprehensive statement as to mailing such notice of expansion; (b) An Application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the participation requirements of Article 14, infra, and (d) a copy of all objections received along with the Operator's response thereto.

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

ARTICLE 6

UNITIZED LAND AND UNITIZED SUBSTANCES

All land committed to this Agreement as to the Premier sand as defined under Unitized Formation, shall constitute land referred to herein as "Unitized Land" or "Land subject to this Agreement". All oil and gas in or produced from said Unitized Formation of the "Unitized Land" are unitized under the terms of this Agreement and herein are called "Unitized Substances". Surface rights of ingress and egress shall be maintained for the benefit of the Unit.

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 defined in Article 2.8 of this Agreement.

ARTICLE 7

UNIT OPERATOR

McClellan Oil Corporation is hereby designated as Unit Operator, and by signing this instrument as Unit Operator he agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference

means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, and when such interests are owned by it 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.

ARTICLE 8

RESIGNATION OR REMOVAL OF UNIT OPERATOR

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

The resignation or removal 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 or removal.

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

In all instances of resignation or removal, until a successor Unit Operator is selected and accepted as hereinafter provided, the Working Interest Owners shall be jointly responsible for performance of the duties of 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 wells, equipment, books, 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 Unit Manager or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

ARTICLE 9

SUCCESSOR UNIT OPERATOR

Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by Working Interest Owners, the Working Interest Owners shall by affirmative vote of at least seventy-five per cent (75%) of their voting interest, based upon the percentages of participation as shown on Exhibit "C", select a successor Unit Operator, provided, however, that should any Working Interest Owner own a voting interest of more than twenty-five per cent (25%), the vote of said party shall not serve to disapprove the selection of a new Unit Operator approved by eighty per cent (80%) or more of the voting interests of the remaining Working Interest Owners, and provided further that the Unit Operator shall not vote to succeed itself. 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) written notice of such selection shall have been filed with and approved by the Supervisor and the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and Commissioners at their election may declare this Agreement terminated.

ARTICLE 10

ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

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

ARTICLE 11

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.

ARTICLE 12

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 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 additional 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 Supervisor, the Commission, and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, and any other substance or a combination of any of said substances, whether produced from the Unit Area or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Commission, the Commissioner, and the Supervisor monthly, injection and production reports for each well in the Unit. The Working Interest Owners, the Supervisor, the Commission, and the Commissioner, shall be furnished periodical reports on the progress of the plan of operation and any revisions or changes thereto; provided however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Supervisor, the Commission, and the Commissioner.

The initial plan of operation shall be filed with the Supervisor, the Commission, and 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 Supervisor, the Commission, and 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.

ARTICLE 13

TRACT PARTICIPATION

Exhibit "C" attached hereto shows the participation allocated to each Tract in the Unit Area based on a presumed 100% commitment. The formula used for the calculations of such percentages is as follows:

$$60 \times (\text{times}) \quad \frac{\text{Tract Productive Acre Feet}}{\text{Unit Area Productive Acre Feet}}$$

+ (plus)

$$40 \times (\text{times}) \quad \frac{\text{Tract Cumulative Oil Recovery}}{\text{Unit Area Cumulative Oil Recovery}}$$

If this Unit Agreement is approved with less than 100% Tract Commitment, the percentages of participation shall be revised in accordance with the provisions of Article 14 of this Agreement.

ARTICLE 14

TRACTS QUALIFIED FOR UNIT PARTICIPATION

As the objective of this Agreement is to have lands in the unit area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the tract involved is qualified under this section.

On and after the effective date hereof the Tracts within the Unit Area which shall be entitled to participation (as provided in Article 13 hereof) in the production of Unitized Substances therefrom shall be those Tracts within the Unit Area that are qualified as follows:

(a) Each and all of those Tracts as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest in said Tract execute this agreement and the Unit Operating Agreement and Royalty Owners owning one hundred per cent (100%) of the Royalty Interest in said Tract have subscribed, ratified or consented to this Agreement; and

(b) Each and all of those Tracts in which the owners of not less than ninety-five per cent (95%) of the Working Interest therein execute this Agreement and the Unit Operating Agreement and the owners of not less than seventy-five per cent (75%) of the Royalty Interest therein have executed this Agreement, and in which the Working Interest Owners in said Tract who have executed this Agreement and the Unit Operating Agreement have agreed to indemnify and hold harmless all other parties hereto, in a manner satisfactory to the owners of eighty-five per cent (85%) of the Working Interests qualified under Subarticle 14(a), against any and all claims and demands that may be made by the nonjoining Working Interest Owners or Royalty Owners, or both, on account of the commitment and joinder of such Tract to the Unit Agreement, and operation thereof under such conditions on the basis herein provided, and as to which the owners of eighty-five per cent (85%) of the Working Interests qualified under Subarticle 14(a), exclusive of the Working Interest Owner submitting such Tract, have approved the commitment of such Tract to this Unit Agreement.

(c) Each Tract as to which Working Interest Owners owning less than 100% of the Working Interest therein have executed this Agreement and the Unit Operating Agreement, regardless of the percentage of Royalty Interest therein which is committed hereto, and, further, as to which:

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have executed this Agreement and the Unit Operating Agreement have joined in a request for qualification of such Tract for Unit

Participation 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 which may be made by the owners of Working Interests in such Tract who are not parties hereto and which arise out of the qualification of such Tract for Unit Participation, and

(ii) The owners of eighty per cent (80%) of the committed Working Interest in all Tracts meeting the requirements of Sub-articles 14(a) and 14(b) have voted in favor of the qualification of such Tract and acceptance of the indemnity agreement.

Upon the qualification of such a Tract for Unit Participation, 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 and made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Commissioner and the Supervisor, or as promptly thereafter as practicable, 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 Unitized Land hereunder. Said schedule shall set forth opposite each such committed Tract the lease number and assignment number, the owner of record of the lease, and the percentages of participation of such Tract which shall be computed using the formula set out in Article 13 (Tract Participation) above. This schedule of participation shall be revised Exhibit "C" and upon approval thereof by the Commissioner

and the Supervisor shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Commissioner and the Supervisor.

ARTICLE 15

ALLOCATION OF UNITIZED SUBSTANCES

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

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

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

If any Working Interest or Royalty Interest in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on Unitized Land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Article 16 (Royalty Settlement) 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 responsible for the payment of such expense. In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unit Area currently as and when produced, then so long as such conditions continue, Unit Operator, for the account and at the expense of such party and in order to avoid curtailing the operation of the Unit Area, may buy, sell or otherwise dispose of such production to itself or others on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such party shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner for payment to the parties entitled thereto under existing contracts.

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

If, after the effective date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Article 5 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Article 33 (Nonjoinder and Subsequent Joinder), and Article 14 (Tracts Qualified for Unit Participation), or if any Tract is excluded from the Unit Area as provided for in Article 31 (Loss of Title), the schedule of participation as shown in Exhibit "C" shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Commissioner, and the Supervisor to show the new percentages of participation of all the then effectively committed Tracts, in any such revision pursuant to this paragraph the Tract Participations of the Tracts committed prior to the revision shall remain in the same ratio one to the other and the revised schedules, upon approval by the Commissioner and the Supervisor, shall govern all the allocation of production from and after the effective date thereof until a new schedule is so approved.

ARTICLE 16

ROYALTY SETTLEMENT

The State of New Mexico and the United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit

Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation, for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan approved pursuant to Article 12 (Plan of Operations), a like amount of gas, less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation, Royalty free as to dry gas but not as to the products extracted therefrom; provided such withdrawal shall be pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor and the Commissioner; and provided further that such right of withdrawal shall terminate as of the effective date of termination of this Agreement.

All royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder and payment on account of any Overriding Royalty Interest 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.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all Unitized Substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rates specified in the

respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation.

Royalty due the State of New Mexico shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all Unitized Substances on the basis of the amounts thereof allocated to unitized State land as provided herein at the rates specified in the respective State leases.

Each Royalty Owner (other than the State of New Mexico and the United States of America) and each party hereto claiming an Overriding Royalty Interest that executes this Agreement represents and warrants that it is the owner of a Royalty Interest or Overriding Royalty Interest (as applicable) 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 hereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

ARTICLE 17

RENTAL SETTLEMENT

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

ARTICLE 18

CONSERVATION

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

ARTICLE 19

DRAINAGE

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

ARTICLE 20

LEASES AND CONTRACTS CONFORMED AND EXTENDED

The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract committed to this Agreement, regardless

of whether there is any development of any particular part or Tract of the Unitized Land, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

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

(c) Suspension of drilling or producing operations on all Unitized Lands pursuant to direction or consent of the Commissioner and the Secretary or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of Unitized Lands.

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

(e) The segregation of any Federal lease committed to this Agreement is governed by the following provisions in the fourth paragraph of Sec. 17(j) of said Act of February 25, 1920, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; Provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two (2) years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(f) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this Agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its land 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 and are capable of being produced in paying quantities from 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.

ARTICLE 21

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 might 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 the Commissioner, the Supervisor, and the Working Interest Owners.

ARTICLE 22

COVENANTS RUN WITH LAND

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

This Agreement shall become binding upon each party as of the date such party signs the instrument by which it becomes a party hereto; and, unless sooner terminated as hereinafter provided, shall become effective as to qualified Tracts after approval by the Secretary of the Interior or his duly authorized delegate, at the time and date as determined by the Working Interest Owners in all the qualified Tracts, and set forth in a certificate filed for record by Unit Operator in Eddy County, New Mexico. The certificate shall also recite the percentage of the Unit Area represented by the Tracts qualified under Article 14, the book and page in which a counterpart of this Agreement has been recorded, and the case number and order number of the order of approval by Governmental authority, if obtained. The certificate shall not be filed until after the following requirements have been met:

(a) The execution or ratification of this Agreement and the Unit Operating Agreement by Working Interest Owners owning a combined Unit Participation of at least ninety-three per cent (93%), 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 said Unit Area; and

(b) The approval of this Agreement by the Commissioner, the Secretary or his duly authorized representative, and the Commission.

If this Agreement is not filed for final approval by the Commissioner, the Secretary or his duly authorized representative and the Commission on or before May 31, 1976, this Agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Unit Participation of at least ninety per cent (90%) and the owners of at least sixty-five per cent (65%) of the Working Interests committed to this Agreement have voted to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and this Agreement is not filed for final approval by the Commissioner, the Secretary or his duly authorized representative and the Commission on or before said extended expiration date, this Agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect. For the purpose of this Article, ownership shall be computed on the basis of Unit Participation as determined from Exhibit "C" attached to the Unit Operating Agreement.

Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for record a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date and the location of the governmental agency offices where copies of this Agreement are filed.

The term of this Agreement shall be for and during the time that Unitized Substances are produced in quantities sufficient to pay the cost of producing same from the Unit Area and as long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This Agreement may be terminated for any reason with the approval of the Commissioner and the Director by Working Interest Owners owning seventy-five per cent (75%) Unit Participation. Notice of any such termination shall be given by Unit Operator to all parties thereto.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts.

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

ARTICLE 24

RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION

All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, at his discretion, the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided further that no such alteration or modification shall be effective as to any lands of the

State of New Mexico as to the rate of prospecting and developing in the absence of specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

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

ARTICLE 25

NONDISCRIMINATION

In connection with the performance of work under this agreement, Unit Operator agrees to comply with all of the provisions of Section 202(1) to (7), inclusive, of Executive Order 11246 (30 F.R. 12319), as amended by Executive Order 11375, dated October 13, 1967.

ARTICLE 26

APPEARANCES

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

ARTICLE 27

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 registered or certified mail, addressed to such

party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

ARTICLE 28

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 United States or of the State wherein said Unitized Lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

ARTICLE 29

EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY

Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this Agreement various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized Land as now or hereafter constituted. Therefore, for all purposes of this Agreement any such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement, and it is agreed that any such equipment and personal property shall be and remain personal property of the Working Interest Owners for all purposes.

ARTICLE 30

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, uncontrolled 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 31

LOSS OF TITLE

In the event title to any Tract of Unitized Land shall fail so as to render the Tract inoperable under this Agreement and the true owner cannot be induced to join this Agreement, such Tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any Royalty, Working Interest or other interest subject thereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State or Federal land or leases, no payments of funds due the State of New Mexico or the United States of America shall be withheld, but such funds shall be deposited as directed by the Commissioner or the Supervisor (as the case may be), 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.

ARTICLE 32

BORDER AGREEMENTS

Subject to the approval of the Supervisor and the Commissioner, the Unit Operator, with concurrence of sixty-five per cent (65%) of the Working Interest Owners, based upon the percentages of participation may enter into a border protection agreement or agreements with the Working Interest Owners of adjacent lands along the boundaries of the

Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

ARTICLE 33

NONJOINDER AND SUBSEQUENT JOINDER

Any Oil or Gas Interest in the lands in the Unit Area not committed hereto prior to submission of this Agreement to the Commissioner and the Director for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Article and of Article 14 (Tracts Qualified for Unit Participation) hereof, at any time up to the effective date hereof.

It is understood and agreed, however, that from and after 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 ninety per cent (90%) of the Working Interest Owners (based upon the percentages of participation), the Commissioner and the Supervisor. Such joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement 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 proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective as of the first day of the month following the filing with the Commissioner and the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Commissioner or the Director is duly made within sixty (60) days after such filing and such joinder is approved by the Commissioner as to State Lands.

ARTICLE 34

NO PARTNERSHIP

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

ARTICLE 35

OIL IN LEASE TANKAGE ON EFFECTIVE DATE

Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unitized Area in order to ascertain the amount of merchantable oil in such tanks, above the pipe line connections, as of 7:00 a.m. on the effective date hereof. All such oil as is a part of the prior allowable of the well or wells from which the same was produced shall be and remain the property of the Interest Owners entitled thereto the same as if the Unit had not been formed, and the responsible Working Interest Owners shall promptly remove said oil from the Unitized Area. Any such oil not so removed may be sold by the Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms and provisions of the applicable lease or leases and other contracts. All such oil and gas in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any Tract is overproduced with respect to the allowable of the well or wells on that Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

ARTICLE 36

PERSONAL PROPERTY EXCEPTED

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

ARTICLE 37

TAXES

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

ARTICLE 38

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 owned or controlled by such party; provided, however, that if the party is the owner of a Working Interest, he must also execute the Unit Operating Agreement.

ARTICLE 39

COUNTERPARTS

This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified

or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

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

ATTEST:

McCLELLAN OIL CORPORATION
Unit Operator

By Deloris Taylor
Deloris Taylor

By Jack L. McClellan
Jack L. McClellan, President

Date 4-25-75

Date 4-25-75

Jack L. McClellan
Jack L. McClellan

Date 4-25-75

Barbara McClellan
Barbara McClellan

Date _____

Hal M. Stierwalt

Date _____

Betty Stierwalt

GETTY OIL COMPANY

Date _____

By _____

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 25 day of April, 1975, by Jack L. McClellan, President of McClellan Oil Corporation, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

10/31/77

Sharon R. Myler
Notary Public

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 25 day of April, 1975, by Jack L. McClellan and Barbara McClellan, his wife.

My Commission Expires:

10/31/77

Sharon R. Miller
Notary Public

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by Hal M. Stierwalt and Betty Stierwalt, his wife.

My Commission Expires:

Notary Public

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by _____ of Getty Oil Company, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

EXHIBIT "B"

TO

UNIT AGREEMENT

EAST HENSHAW UNIT
EDDY COUNTY, NEW MEXICO

Schedule of Acreage by Tracts

AND

Percentage of Ownership

Serial No. and Date of Lease	Basic Royalty	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Uni Participatic
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Tract No. 1	(Federal Lands)	Section 1: Lots 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$			
882.22	NM-06407-A 2-1-52	U.S.A. 12 $\frac{1}{2}$ % (All)	Southern Union Prod. Co. 2.25% Elizabeth W. Chaney 2.25% Aileen T. Taylor and Frank F. Taylor, her husband 0.25% Doras Van Orsdol 0.25% Southern Union Prod. Co. 4% Jack L. McClellan 1%	Featherstone Farms, Ltd. 75% Hal M. Stierwalt 25%	Jack L. McClellan 55.81012%

Total One Federal Tract --- 882.22 Acres or 68.6% of Unit Area

EXHIBIT "B" to UNIT AGREEMENT
EAST HENSHAW UNIT
T-16-S, R-30-E, EDDY COUNTY, NEW MEXICO

Acres	Serial No. and Date of Lease	Basic Royalty	Lessee of Record	Overriding Royalty		Working Interest	
				Owner and Amount	None	Owner and Amount	Participation
Tract No. 2	(State Lands)	Section 2: Lots 9, 10, 15, 16, E $\frac{1}{2}$ SW $\frac{1}{4}$					
240	E-5131 4-10-51	State 12 $\frac{1}{2}$ % (All)	Humble Oil & Refining Co.	None	Jack L. McClellan 75% Hal M. Stierwalt 25%	29.74281%	
Tract No. 3	(State Lands)	Section 2: S $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$					
120	OG-263 10-16-55	State 12 $\frac{1}{2}$ % (All)	Humble Oil & Refining Co.	None	Jack L. McClellan 75% Hal M. Stierwalt 25%	8.43752%	
Tract No. 4	(State Lands)	Section 2: NW $\frac{1}{4}$ SE $\frac{1}{4}$					
40	B-6672 9-10-36	State 12 $\frac{1}{2}$ % (All)	Getty Oil Co.	None	Getty Oil Co. 100%	6.00955%	
Total Three State Tracts --- 400 Acres or 31.2% of Unit Area							

EXHIBIT "B" TO UNIT AGREEMENT
 EAST HENSHAW UNIT
 T-16-S, R-30-E, EDDY COUNTY, NEW MEXICO

EXHIBIT "C"
TO
UNIT AGREEMENT
EAST HENSHAW UNIT
EDDY COUNTY, NEW MEXICO

Schedule of Tract Participation

<u>Tract No.</u>	<u>Participation Percentage</u>
1	55.81012%
2	29.74281%
3	8.43752%
4	6.00955%
	<hr/>
TOTAL	100.00000%

600

UNIT OPERATING AGREEMENT

EAST HENSHAW UNIT

EDDY COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT
EAST HENSHAW UNIT
EDDY COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT

EAST HENSHAW UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of _____, 197_, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto.

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, East Henshaw Unit, Eddy 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 Unit Operations as herein 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, B and C of the Unit Agreement.

2.1.2 Exhibit D, attached hereto, is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the portion of each Working Interest Owner's participation attributable to each such interest, and the Unit

Participation of each Working Interest Owner. Exhibit D, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participation of Working Interest Owners for purposes of this agreement until shown to be in error and revised as herein authorized.

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

2.2 Revised Exhibits. Whenever Exhibits A, B and C are revised, Exhibit D shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit D 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 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 the 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 any other purposes.

3.2.3 Well Recompletions and Change of Status. The recom-
pletion, 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 Three Thousand Five Hundred Dollars (\$3,500.00);
however, 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 well, including neces-
sary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or other-
wise disposing of any major item of surplus Unit Equipment, if
the current price of new equipment similar thereto is Five Hundred
Dollars (\$500.00) 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; how-
ever, such designation shall not prevent any Working Interest
Owner from appearing in person or from designating another repre-
sentative in its own behalf.

3.2.7 Audits. The auditing of the account of Unit Operator
pertaining to Unit Operations hereunder; however, the audits
shall

- (a) not be conducted more than once each year except
upon the resignation or removal of Unit Operator,
- (b) be made upon the approval of the majority of Working
Interest Owners other than Unit Operator, at the
expense of all Working Interest Owners other than
Unit Operator,
- (c) be made at the expense of those Working Interest
Owners requesting such audit, if less than a majority
of the Working Interest Owners, other than Unit
Operator, request such an audit, and

(d) 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 E.

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

3.2.10 Assignments 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 Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall inform Unit Operator in writing of the names and address 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 five percent (5%). 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 may amend items included in the agenda and may act upon an amended item or other items presented at 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. Unless provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of two (2) or more Working Interest Owners having a combined voting interest of at least seventy-five percent (75%); provided, however, that if any Working Interest Owner has a voting interest of twenty-five percent (25%) or more, its negative vote or failure to vote shall not serve to disapprove any motion, unless such vote is supported by the vote of one or more Working Interest Owners having a combined voting interest of at least seven percent (7%); and such affirmative vote shall be controlling on all parties.

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

4.3.4 Poll Votes. Working Interest Owners may decide by letter or telegram any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such 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 of 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 Unit Operator. McClellan Oil Corporation is hereby designated as Unit Operator.

6.2 Resignation or Removal - Selection of Successor. The resignation or removal of Unit Operator, and the selection of a successor shall be governed by the provisions of the Unit Agreement.

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 and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the lien and security interest 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 Working Interest Owners monthly 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 all logs 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 Three Thousand Five Hundred Dollars (\$3,500.00) 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 usual rates prevailing 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.

7.11 Non-Consent Wells. After "Payout" (defined below) if all parties cannot mutually agree upon the drilling of any well on the Unit Area or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration

of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "B" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production allowed to the Tract upon which such well is located until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting

Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

- (B) 125% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and 125% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

In the case of any reworking, plugging back or deeper drilling operations, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value.

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided

above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it and from and after such reversion such Non-Consenting Party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto, and the producing therefrom as such Non-Consenting Party would have owned had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the accounting procedure schedule, Exhibit "D", attached hereto.

"Payout" is defined to mean 7:00 a.m. local time on the first day of the month following the month in which Working Interest Owners have received proceeds from the sale of Unitized Substances attributable to the net working interest in the leases covered by the Unit Area (after production taxes but prior to income taxes), 100% of all costs expended by such Working Interest Owners in initiating a waterflood project for secondary recovery of Unitized Substances on all Tracts in the Unit Area,

including but not limited to reworking existing wells, drilling supplemental wells, purchasing and installing well and secondary recovery equipment, conducting Unit Operations under the Unit Operating Agreement and its exhibits.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof (defined in Section 19.1 hereof), Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for 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; however, 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 notify Unit Operator of such interest prior to the rendition date and 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 or with respect to the production or handling of its share of Unitized Substances.

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator, with respect to the Unit Operations, shall do the following:

9.1.1 Comply with the Workmen's Compensation Laws of the State of New Mexico.

9.1.2 Carry Employer's Liability and other insurance required by the laws of the State of New Mexico.

9.1.3 Unit Operator shall require all contractors engaged in work in or on the Unit Area to carry insurance for the benefit and protection of the Working Interest Owners consistent with Unit Operator's minimum requirements.

9.2 Other Insurance. Unit Operator shall not be required to carry any other insurance for the joint account of the parties hereto. Any party may, at its own expense, acquire such insurance as it deems proper to protect itself against any claims, losses, damages or destruction resulting from Unit Operations.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the Effective Date, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells. All wells completed in the Unitized Formation.

10.1.2 Well and Lease Equipment. The casing and 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 is necessary or desirable for conducting Unit Operations.

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall, on the Effective Date or as soon thereafter as practicable, and at Unit Expense, inventory and evaluate in accordance with the provisions of Exhibit E the personal property taken over under Sections 10.1.1 and 10.1.2, except that casing shall be inventoried for record purposes, but shall be excluded from pricing and investment adjustment. Such inventory shall include and be limited to those items of equipment indicated to be controllable in the 1967 edition of the Material Classification Manual prepared by the Council of Petroleum Accountants Societies of North America (COPAS), except that sucker rods and other items as agreed upon by Working Interest Owners may be included on the inventory in order to insure a more equitable adjustment of investments. All other non-controllable items of lease and well equipment installed within the Unit Area, although excluded from the

inventory, shall nevertheless be taken over by the Unit Operator. Immediately following the completion of such inventory, the material and equipment taken over under Section 10.1.2 shall be priced in accordance with provisions of Section IV, paragraph 2 of Exhibit E, Accounting Procedure, or at an appraised value as determined by the Working Interest Owners. Pricing shall be performed under the supervision of, by the personnel of, and in the offices of, the Unit Operator, with the other Working Interest Owners furnishing such additional pricing help as may be available and necessary.

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 taken over under Section 10.1.2 by such Working Interest Owner's Phase II Unit Participation as shown in Exhibit D. 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. There shall be no adjustment for lease roads or appurtenances thereto.

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided

interest, equal to its Phase II Unit Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

ARTICLE 11

UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit E. Each Working Interest Owner shall reimburse the Unit Operator for its share of Unit Expense as follows:

11.1.1 Operating Costs and Expenditures. All operating costs and expenses shall be shared and borne by Working Interest Owners in proportion to their then effective Unit Participation.

11.1.2 Investment Expenditures. Beginning at 7:00 a.m. on the Effective Date hereof, all capital expenditures shall be shared and borne by the Working Interest Owners in accordance with their Phase II Unit Participation.

11.2 Budgets. Before or as soon as practical after the Effective Date, 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 estimated 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 be furnished promptly to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right without prejudice to other rights or remedies to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th 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 of the

estimate, 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 and Security Interest of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted, and in its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the rate of ten percent (10%) per annum. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under said Code. The bringing of a suit and the obtaining of judgment by the Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, 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, 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 Expense shall be subrogated to the lien and other rights herein granted Unit Operator.

11.7 Carved-Out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Lien and Security Interest of Unit Operator". If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 11.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

11.8 Uncommitted Royalty Interest and Overriding Royalty Interest. Should an owner of a Royalty Interest or Overriding Royalty Interest in any Tract fail to become a party of the Unit Agreement, and, as a result thereof, the actual Royalty Interest and/or Overriding Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest and/or Overriding 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 Participation; 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

NON-UNITIZED 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 a formation underlying the Unit Area, other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, such Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest 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 be affected adversely.

12.2 Multiple Completions. On and after the Effective Date hereof, no well shall be multiply completed to produce from the Unitized Formation and any other formation without prior consent of the Working Interest Owners. In the event such consent is given, such multiple completion shall be subject to terms and conditions as may be prescribed by Working Interest Owners.

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 D, and 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 such interest, except failure to title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty 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 7:00 a.m. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of 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 because of Unit Operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of 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 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 if the expenditure does not exceed Three Thousand Five Hundred Dollars (\$3,500.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above 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 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

LAWS AND REGULATIONS

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1(a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Unit Area is located, or any future income tax law of the United States, contain provisions

similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agrees to make such election as may be permitted or required by such laws. In making this election, each of the parties states that the income derived by such party from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

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 to title, either express or implied, to the other Working Interest Owners, all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations. Such transfer shall not relieve the Working Interest Owner from any obligation or liability incurred prior to the date of delivery of the instrument of transfer. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interest so acquired, shall pay transferor, for its interest in Unit Equipment, the net salvage value thereof as determined by Working Interest Owners. After the date of delivery of the instrument of 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

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to 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 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 determined by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

18.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

ARTICLE 19

EFFECTIVE DATE AND TERM

19.1 Effective Date. This agreement shall become effective when the Unit Agreement becomes effective.

19.2 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 plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20, (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 20

ABANDONMENT OF OPERATIONS

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

20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be effected 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.

20.1.2 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 as determined by Working Interest Owners of the casing and equipment in and on the wells taken over, and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

20.1.3 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 in compliance with applicable laws and regulations.

20.1.4 Cost of Abandonment. The cost of abandonment of Unit Operations shall be Unit Expense.

20.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participation. As between the Working Interest Owners, Hal M. Stierwalt and Jack L. McClellan and all other Working Interest Owners claiming by, through or under them (or either of them) the provisions of this Section 20.1.5 shall be subject to the provisions of paragraph 7 of a certain Memorandum of Agreement dated December 31, 1974, between Hal M. Stierwalt, et ux, and Jack L. McClellan, et ux.

ARTICLE 21

EXECUTION

21.1 Original, Counterpart, or Other Instrument. An owner of a Working Interest may become a party of this agreement by signing the original of this instrument, a counterpart hereof, or other instrument agreeing to become a party hereto. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

ARTICLE 22

SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. This agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto, their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

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

ATTEST:

McCLELLAN OIL CORPORATION
UNIT OPERATOR

BY *Delcris Taylor*
Delcris Taylor

BY *Jack L. McClellan*
Jack L. McClellan, President

Date April 25, 1975

Jack L. McClellan

Date April 25, 1975

Jack L. McClellan
Jack L. McClellan

Date 4-25-75

Barbara McClellan
Barbara McClellan

Date _____

Hal M. Stierwalt

Date _____

Betty Stierwalt

GETTY OIL COMPANY

Date _____

By _____

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 25 day of April, 1975, by Jack L. McClellan, President of McClellan Oil Corporation, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

10/31/77

Sharon R. Miles
Notary Public

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 25 day of April, 1975, by Jack L. McClellan and Barbara McClellan, his wife.

My Commission Expires:

10/31/77

Sharon R. Miles
Notary Public

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by Hal M. Stierwalt and Betty Stierwalt, his wife.

My Commission Expires:

Notary Public

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by _____ of Getty Oil Company, a _____ corporation on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by Jack L. McClellan, President of McClellan Oil Corporation, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by Jack L. McClellan and Barbara McClellan, his wife.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by Hal M. Stierwalt and Betty Stierwalt, his wife.

My Commission Expires:

Notary Public

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by _____ of Getty Oil Company, a _____ corporation on behalf of said corporation.

My Commission Expires:

Notary Public

EXHIBIT "D"

TO

UNIT OPERATING AGREEMENT

EAST HENSHAW UNIT
EDDY COUNTY, NEW MEXICO

Schedule of Tract Participation

<u>Tract No.</u>	<u>Participation Percentage</u>
1	55.81012%
2	29.74281%
3	8.43752%
4	<u>6.00955%</u>
TOTAL	100.00000%

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	All XXXXXX wells	Next Five	All Wells Over Ten
All depths	\$600/mo.	\$150/mo.		

Said fixed rate (shall) ~~(XXXXXX)~~ include salaries and expenses of production foremen and pumper.

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 included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
 - (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, ~~XXXXXX~~ 5% of total cost*
 - B. Total cost more than \$25,000 but less than \$100,000, 5% of total cost.*
 - C. Total cost of \$100,000 or more, 5% of the first \$100,000 plus 2% 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

*except outside (third party) services³ other than engineering services.

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.

4. Subject To

The provisions of this Article V are subject to the rights and obligations of certain Working Interest Owners as specified in a certain Memorandum of Agreement, dated December 31, 1974, by and between Hal M. Stierwalt, et ux, to and with Jack L. McClellan, et al

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.

CLERK'S CERTIFICATE

STATE OF NEW MEXICO }
County of Eddy } ss.

I, FRANCES M. WILCOX, Clerk of the DISTRICT COURT OF THE FIFTH JUDICIAL DISTRICT, within and for the County of Eddy, State of NEW MEXICO, DO HEREBY CERTIFY that the attached is a full, true and correct copy of the original

SUMMARY JUDGMENT,
filed and docketed January 21, 1976;

in cause numbered 30570 on the Civil Docket
of said court, wherein JACK L. McCLELLAN, BARBARA McCLELLAN and McCLELLAN OIL
are ~~xx~~ plaintiff S , and CORPORATION
are HAL M. STIERWALT and BETTY STIERWALT
~~xx~~ defendants , all as shown from the files and records of my said office.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed the seal of said Court at Carlsbad, New Mexico,
this 21st day of January , A. D. 19 76 .

FRANCES M. WILCOX

Clerk of the District Court

By Gay D. Chismon
Deputy

IN THE DISTRICT COURT OF EDDY COUNTY

FIFTH JUDICIAL DISTRICT

STATE OF NEW MEXICO

JACK L. McCLELLAN, BARBARA
McCLELLAN and McCLELLAN OIL
CORPORATION,

Plaintiffs,

vs.

NO. 30570

HAL M. STIERWALT and BETTY
STIERWALT,

Defendants.

SUMMARY JUDGMENT

Motion for Summary Judgment filed by the Plaintiffs coming on to be heard before the Court after notice to Defendants' attorneys Atwood, Malone, Mann & Cooter (who, with the approval of the Court and consent of the Defendants, withdrew as counsel for the Defendants immediately before the hearing), and Plaintiffs appearing by their attorneys Jennings, Christy & Copple, the Defendant, Hal M. Stierwalt, appearing pro-se, and the Defendant, Betty Stierwalt, not appearing, and the Court having considered the Motion for Summary Judgment, having reviewed the pleadings on file, the transcript and exhibits to the Arbitration Hearing on file, and the instruments attached to the Application for Confirmation of Arbitrators' Award on file, and the Defendants offering no rebutting evidence or affidavits, and having considered argument of counsel for the Plaintiffs and the Defendant, Hal M. Stierwalt;

FINDS:

1. The Court has jurisdiction of the subject matter of this action and personal jurisdiction over both the Plaintiffs and the Defendants.

2. The Arbitrators' Award on file herein is lawful, fair and equitable, and should be enforced. That such award is free of procurement by corruption, fraud or other undue influence, there was no evident partiality by the arbitrators, the arbitrators did not exceed their powers, that there was no application or motion to postpone Arbitrators' Hearing and that there are otherwise no grounds for vacating the Arbitrators' Award.

Based upon the above findings of facts, the Court concludes as a matter of law:

1. That the Arbitrators' Award on file herein should in all things be approved and an appropriate order issued confirming the Arbitrators' Award and effectuating compliance therewith.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED THAT within 20 days from the entry of this Summary Judgment:

1. Hal M. Stierwalt and Betty Stierwalt, his wife, are ordered and directed to execute, acknowledge and deliver to the Clerk of the Court for delivery to Security National Bank of Roswell as Escrow Agent under the Memorandum of Agreement three counterparts of that certain Conveyance of Operating Rights, and in view of the dilatory practices of Mr. and Mrs. Stierwalt with respect to the execution and delivery of said conveyance, the provision therein requiring certain governmental approvals on or before May 30, 1975,

is stricken and the date the last of such governmental approvals are obtained, as specified in paragraph 5 below, is substituted in lieu thereof.

2. Hal M. Stierwalt and Betty Stierwalt, his wife, are ordered and directed to forthwith execute, acknowledge and deliver to the Clerk of the Court for delivery to Jack McClellan ten counterparts of the Unit Agreement.

3. Hal M. Stierwalt and Betty Stierwalt, his wife, are ordered and directed to forthwith execute, acknowledge and deliver to the Clerk of the Court for delivery to Jack McClellan ten counterparts of the Unit Operating Agreement.

4. Hal M. Stierwalt is ordered and directed to forthwith execute and deliver to the Clerk of the Court for delivery to Security National Bank of Roswell, Escrow Agent, four manually signed counterparts of "Designation of Operator" on a current form approved by the United States Geological Survey, covering United States Oil and Gas Lease Serial No. NM-06407-A as to Lots 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$ Section 1, Township 16 South, Range 30 East, N.M.P.M., Eddy County, New Mexico, for depths from the surface to the base of the "Unitized Formation" as defined in Section 2.8 of the Unit Agreement.

5. Forthwith upon receipt of the instruments provided for in paragraphs 1, 2, 3 and 4 next hereinabove, Plaintiff Jack McClellan shall attempt to obtain final approval from the United States Geological Survey and from the New Mexico Commissioner of Public Lands of the Unit Agreement and allowance of the institution of a secondary waterflood project as contemplated by the Memorandum of Agreement. Plaintiff

Jack McClellan shall have 30 days after delivery of such documents to Security National Bank of Roswell and himself, as applicable, in which to obtain such approval. Forthwith upon obtaining such approvals, Plaintiff Jack McClellan shall undertake the secondary waterflood operations contemplated by the Unit Agreement in conformity with the order of the New Mexico Oil Conservation Commission.

6. Forthwith, upon a showing that the governmental final approvals provided for in paragraph 5 above have been obtained, Security National Bank of Roswell, Escrow Agent, shall deliver to Jack McClellan the Conveyance of Operating Rights, the "Designation of Operator" and the Collateral Assignment of Operating Rights then in its possession.

7. Upon compliance with paragraph 6 above, Security National Bank of Roswell shall deliver to Hal M. Stierwalt the cash sum of \$50,000.00 (with accrued interest), now escrowed with said Bank.

8. If the governmental final approvals are not obtained by Jack McClellan within the time permitted by paragraph 5 above, then in lieu of paragraphs 6 and 7 above, Security National Bank of Roswell, Escrow Agent, shall redeliver to Hal M. Stierwalt the Conveyance of Operating Rights, the "Designation of Operator" and the Collateral Assignment of Operating Rights, and shall deliver to Jack McClellan the cash sum of \$50,000.00 (with accrued interest) presently escrowed with said Bank, whereupon the Memorandum of Agreement shall be deemed terminated and cancelled, and each of the parties hereto shall be returned to the status quo as of November 27, 1973.

9. The instruments required by this Summary Judgment to be executed by the Defendants Hal M. Stierwalt and Betty Stierwalt, his wife, as provided in paragraphs 1, 2, 3 and 4 above, are herewith delivered to the Clerk of the Court who shall telephonically notify Plaintiffs' attorneys when the same have been executed, acknowledged and delivered in accordance with this Summary Judgment.

10. The Court specifically retains jurisdiction of the subject matter of this action and the personal jurisdiction over the Plaintiffs and the Defendants to enforce this Summary Judgment.

11. Plaintiffs have and recover their costs in this action as against the Defendants, jointly and severally, pursuant to N.M.S.A. 22-3-22, 1953 Comp., upon approval of a Cost Bill filed with the Clerk of the Court.

12. The Clerk of the Court shall forthwith upon entry of this Summary Judgment mail a true and correct copy of the same to the Defendant Hal M. Stierwalt at P. O. Box 2119, Fort Worth, Texas, and to the Defendant Betty Stierwalt at 2500 Coronado Drive, Roswell, New Mexico 88201.

ENTERED this 19th day of January, 1976.

Paul Snead
Paul Snead, District Judge

CLERK'S CERTIFICATE

STATE OF NEW MEXICO }
County of Eddy } ss.

I, FRANCES M. WILCOX, Clerk of the DISTRICT COURT OF THE FIFTH JUDICIAL DISTRICT, within and for the County of Eddy, State of NEW MEXICO, DO HEREBY CERTIFY that the attached is a full, true and correct copy of the original

ORDER IN SUPPLEMENT OF SUMMARY JUDGMENT

Filed: March 11, 1976

in cause numbered 30570 on the Civil Docket
of said court, wherein Jack L. McClellan, et al
is plaintiff, and Hal M. Stierwalt, et al
is defendant, all as shown from the files and records of my said office.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed the seal of said Court at Carlsbad, New Mexico,
this 11th day of March, A. D. 1976.

Frances M. Wilcox
Clerk of the District Court

FIFTH JUDICIAL DISTRICT
STATE OF NEW MEXICO
COUNTY OF EDDY

IN THE DISTRICT COURT OF EDDY COUNTY

FILED
JAN 21 1976
CLERK OF DISTRICT COURT

FIFTH JUDICIAL DISTRICT

STATE OF NEW MEXICO
COUNTY OF EDDY

STATE OF NEW MEXICO

JACK L. McCLELLAN, BARBARA)
McCLELLAN and McCLELLAN OIL)
CORPORATION,)
)
Plaintiffs,)
)
vs.)
)
HAL M. STIERWALT and BETTY)
STIERWALT,)
)
Defendants.)

No. 30570

ORDER IN SUPPLEMENT OF SUMMARY JUDGMENT

The Court having entered Summary Judgment in the above entitled proceeding by Order dated January 19, 1976, and in Paragraph 10 thereof having specifically retained jurisdiction to enforce the Summary Judgment, and it appearing that the Defendants and each of them have failed, neglected and refused to comply with the provisions of such Summary Judgment, and a further hearing having been held before the Court, after notice, on March 2, 1976 at which time the Plaintiff, Jack L. McClellan, was present in person and represented by his attorneys, Jennings, Christy & Copple, and the Defendant, Hal M. Stierwalt, was present in person and represented by his attorney, Max Coll, and the Court being of the opinion that its Summary Judgment should be supplemented so as to effectuate compliance therewith by the appointment of a Special Master to execute, for and in behalf of the Defendants, and

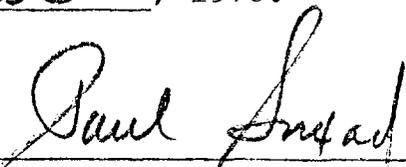
each of them, the instruments therein required to be executed by the Defendants.

ORDERED, that Leroy Carpenter, Sheriff of Chaves County, New Mexico, be, and he hereby is, designated as Special Master to execute, acknowledge and deliver for and in behalf of the Defendants, and each of them, each and all of the instruments and documents provided in said Summary Judgment to be so executed, acknowledged and delivered by the Defendants, and each of them; further,

ORDERED, that said Special Master shall perform the above and foregoing acts not earlier than 11 days nor more than 15 days after the date of this Order in Supplement of Summary Judgment, and said Special Master shall not execute, acknowledge and deliver such instruments and documents if prior thereto he shall be informed that the Defendants have duly appealed the Summary Judgment and posted supersedeas bond with respect thereto in the amount set by this Court by Order entered contemporaneously herewith; and,

ORDERED, that Plaintiffs' attorneys shall, at the date the Special Master is requested to execute, acknowledge and deliver such instruments and documents, furnish to the said Special Master a certificate by the Clerk of this Court, dated not earlier than 11 days from the entry of this Order in Supplement of Summary Judgment to the effect that the Defendants have not so posted said supersedeas bond.

ENTERED this 10 day of March, 1976.



PAUL SNEAD, DISTRICT JUDGE

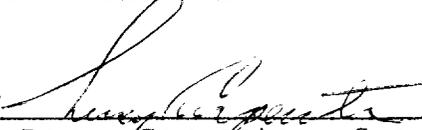
CONSENT TO AND RATIFICATION OF
UNIT AGREEMENT
AND
UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
EAST HENSHAW UNIT
EDDY COUNTY, NEW MEXICO

The undersigned Working Interest Owner in the said Unit Agreement and Unit Operating Agreement, which embraces certain lands in Township 16 South, Range 30 East, N.M.P.M., for valuable consideration paid, ratifies, confirms and joins in the execution of said Unit Agreement and Unit Operating Agreement (each of which is incorporated herein by reference) to the same extent and effect as if the undersigned had executed the original of said Unit Agreement and said Unit Operating Agreement, or respective counterparts thereof. The undersigned does further commit all of the undersigned's right, title and interest in and to the Unitized Substances to the terms, provisions and agreements in said Unit Agreement and said Unit Operating Agreement.

The undersigned acknowledges the receipt of a copy of said Unit Agreement and said Unit Operating Agreement, and further acknowledges that this instrument has been signed and unconditionally delivered at the date shown hereon.

WORKING INTEREST OWNER

HAL M. STIERWALT
BETTY STIERWALT

BY 
Leroy Carpenter, Special Master
and Sheriff of Chaves County, N.M.
c/o Jennings, Christy & Copple
P. O. Box 1180
Roswell, New Mexico 88201

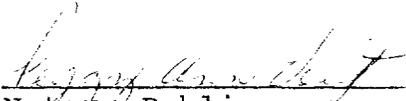
Date: March 25, 1976

STATE OF NEW MEXICO)
 : ss.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 25th day of March, 1976, by Leroy Carpenter, Special Master and Sheriff of Chaves County, New Mexico, as Special Master for and in behalf of Hal M. Stierwalt and Betty Stierwalt, his wife.

My Commission Expires:

22 May 22, 1978


Notary Public

- CASE 5464: Application of Petro-Lewis Corporation for a unit agreement, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Media Entrada Unit Area covering 580 acres of Federal lands, Media-Entrada Oil Pool, Township 19 North, Range 3 West, Sandoval County, New Mexico.
- CASE 5465: Application of Petro-Lewis Corporation for a pressure maintenance project, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a pressure maintenance project in its Media Entrada Unit Area by the injection of water into three wells, being the Fluid Power Pump Wells Nos. 4 and 2 located, respectively, 990 feet from the South line and 1650 feet from the East line, of Section 15, and the Federal Media Well No. 4 located 990 feet from the South line and 1650 feet from the West line of Section 14, all in Township 19 North, Range 3 West, Media-Entrada Oil Pool, Sandoval County, New Mexico.
- CASE 5466: Application of Mark Production Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location 1650 feet from the South line and 1980 feet from the West line of Section 1, Township 18 South, Range 26 East, Atoka-Pennsylvanian Gas Pool, Eddy County, New Mexico, the W/2 of said Section 1 to be dedicated to the well.
- CASE 5467: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Colfax Carbon Dioxide Corporation, F. E. Sauble, American Surety Company of New York, and all other interested parties to appear and show cause why the Tex-Mex Cattle Co. Well No. 1 located in Unit D of Section 2, Township 26 North, Range 24 East, Colfax County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.
- CASE 5468: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Kenneth M. Hankins, Great American Insurance Company, and all other interested parties to appear and show cause why the Virginia Branch Well No. 1 located in Unit D of Section 9, Township 10 North, Range 25 East, Guadalupe County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.
-

Dockets Nos. 11-75 and 12-75 are tentatively set for hearing on May 14 and May 28, 1975. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 30, 1975

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

CASE 5459: Application of McClellan Oil Corporation for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the East Henshaw Unit Area covering 1282 acres, more or less, of State and Federal lands in Township 16 South, Range 30 East, Eddy County, New Mexico.

CASE 5460: Application of McClellan Oil Corporation for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in its East Henshaw Unit Area by the injection of water into the Grayburg formation through eight wells located in Sections 1 and 2, Township 16 South, Range 30 East, West Henshaw-Grayburg Pool, Eddy County, New Mexico.

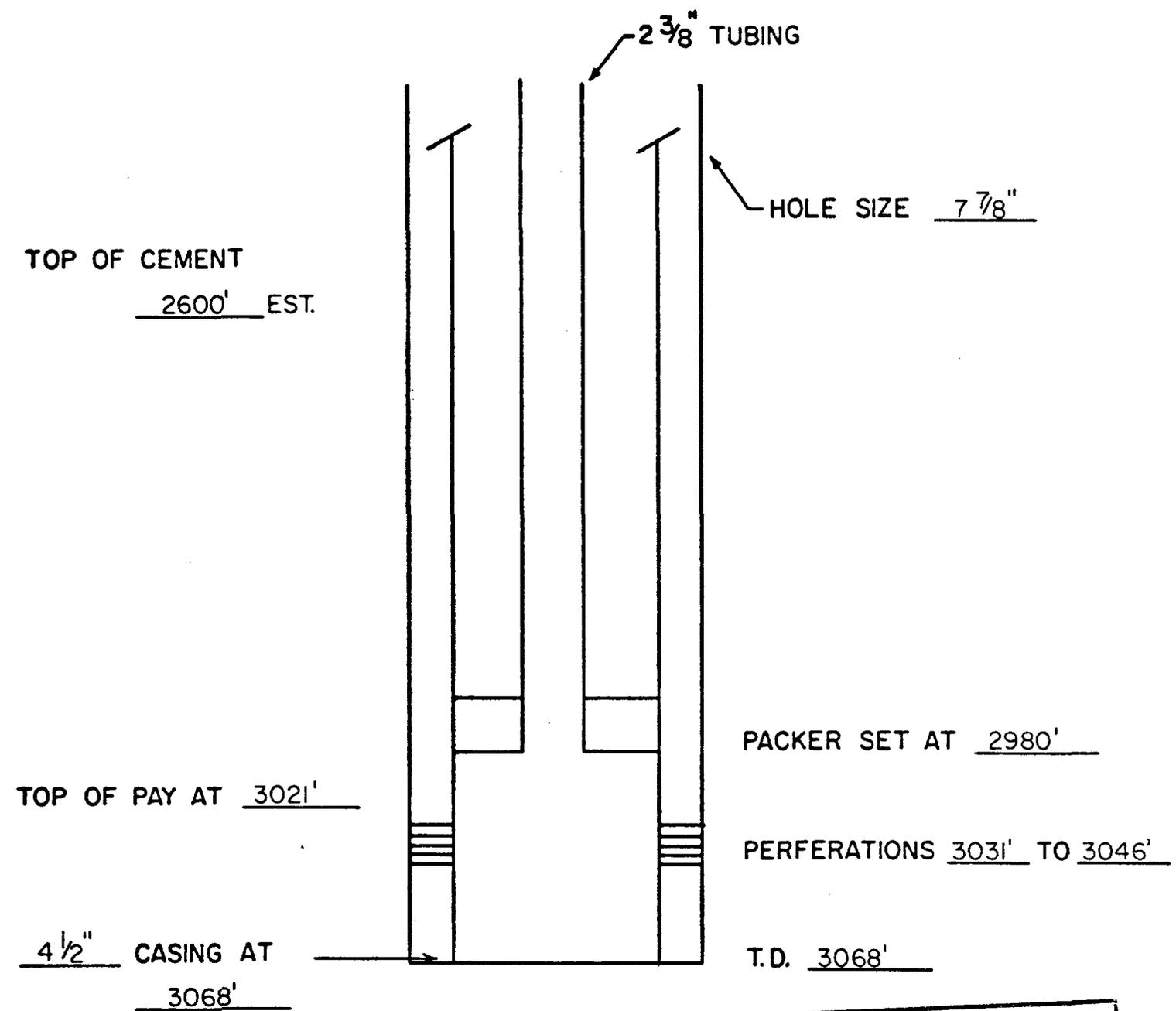
CASE 5461: Application of General American Oil Company for pool extension, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the extension of the vertical limits of the Grayburg-Jackson (Queen-Grayburg-San Andres) Pool, Eddy County, New Mexico, to include the Seven Rivers formation excepting, however, that area of said Grayburg-Jackson Pool overlain by the Fren-Seven Rivers Pool.

CASE 5462: Application of General American Oil Company for an unorthodox location and administrative procedure, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox oil well location 825 feet from the North line and 1295 feet from the West line of Section 13, Township 16 South, Range 29 East, East High Lonesome Penrose Unit, High Lonesome Pool, Eddy County, New Mexico. Applicant further seeks the establishment of an administrative procedure whereby additional unorthodox producing and injection well locations could be approved for said unit area without hearing.

CASE 5463: Application of J. Gregory Merrion for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle undesignated Mesaverde and Devils Fork-Gallup production in the wellbore of his Edna Well No. 4 located in Unit H of Section 7, Township 24 North, Range 6 West, Rio Arriba County, New Mexico.

McCLELLAN OIL CORPORATION
EAST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO

DIAGRAMMATIC SKETCH
PROPOSED WATER INJECTION WELL
WELL NO. 6-1



WITH 130 SACKS CEMENT

OTHER WELL DATES:

COMPLETION DATE: 5-22-61

ELEVATION: 3963'

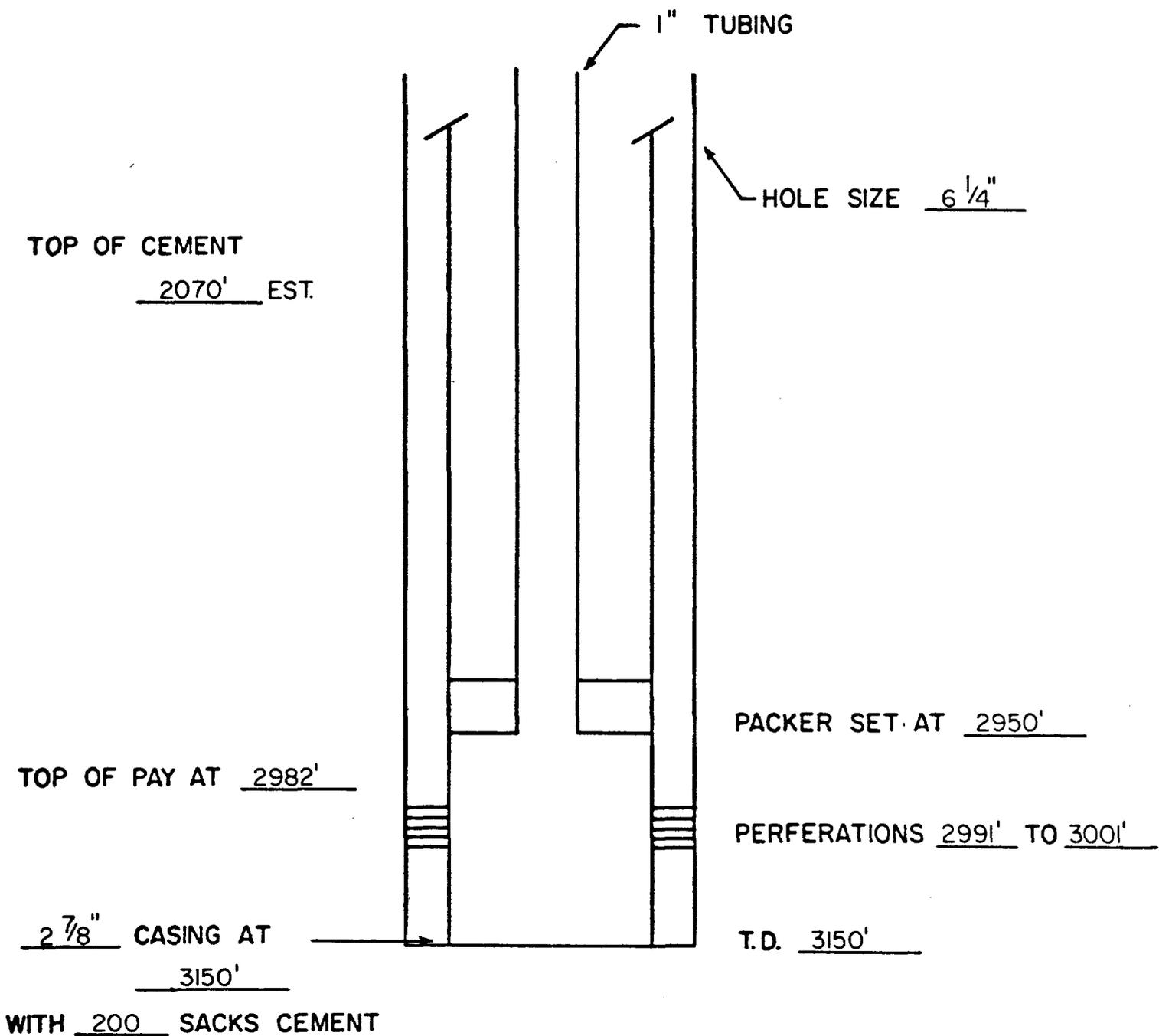
TREATMENT: 200 GAL ACID & 27,500# SAND

ORIGINAL OWNER, LEASE & WELL NO.: SO. UNION, FED. TAYLOR, NO. 1

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
EXHIBIT NO. 4
CASE NO. 51794-111
Submitted by _____
Hearing Date 5-1-61

McCLELLAN OIL CORPORATION
EAST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO

DIAGRAMMATIC SKETCH
PROPOSED WATER INJECTION WELL
WELL NO. 10-4



OTHER WELL DATES:

COMPLETION DATE: 6-4-61

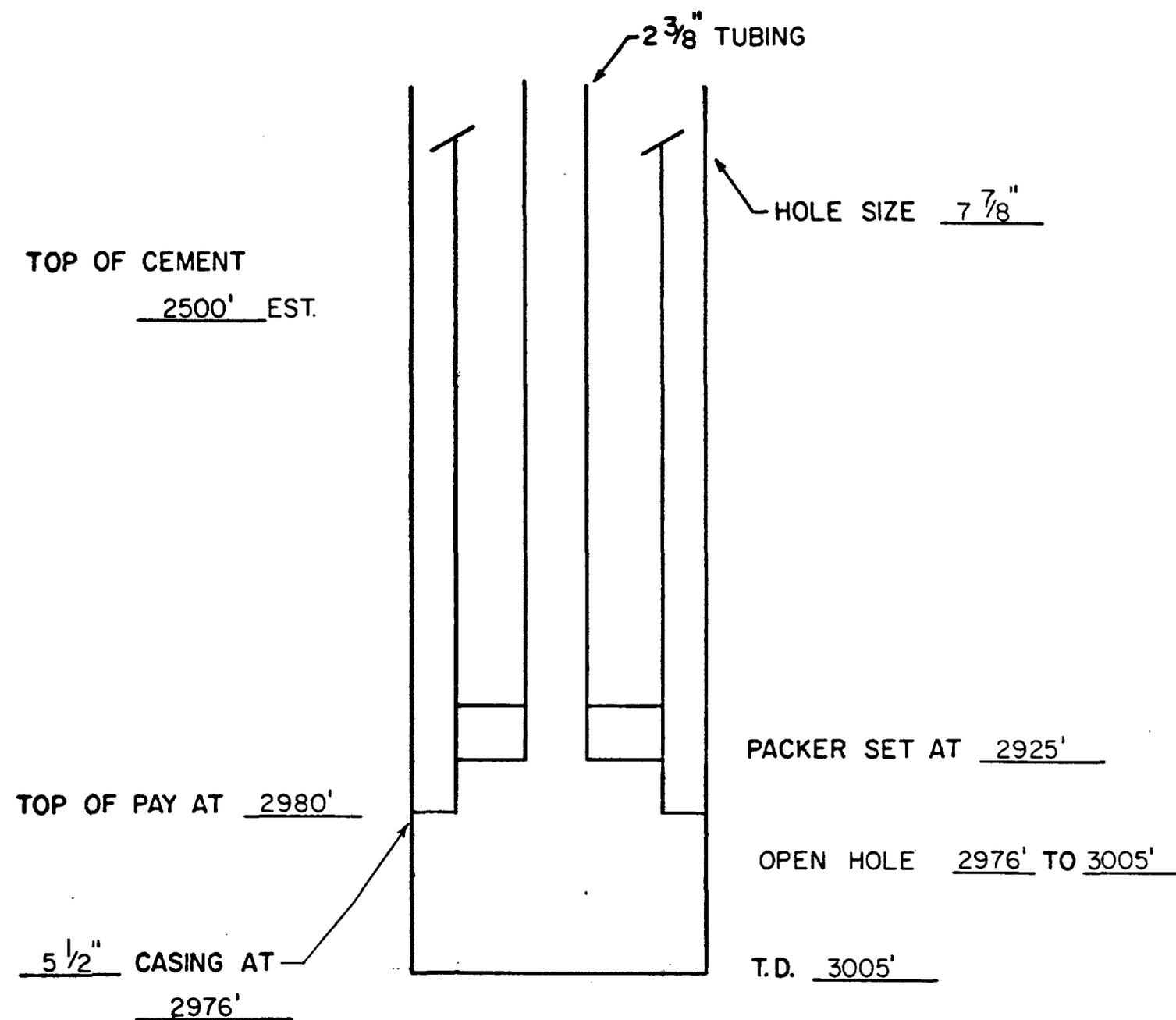
ELEVATION: 3947'

TREATMENT: 30,000* SAND

ORIGINAL OWNER, LEASE & WELL NO.: HUMBLE, STATE "BC", NO. 4

McCLELLAN OIL CORPORATION
EAST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO

DIAGRAMMATIC SKETCH
PROPOSED WATER INJECTION WELL
WELL NO. 11-1



WITH 100 SACKS CEMENT

OTHER WELL DATES:

COMPLETION DATE: 1-15-61

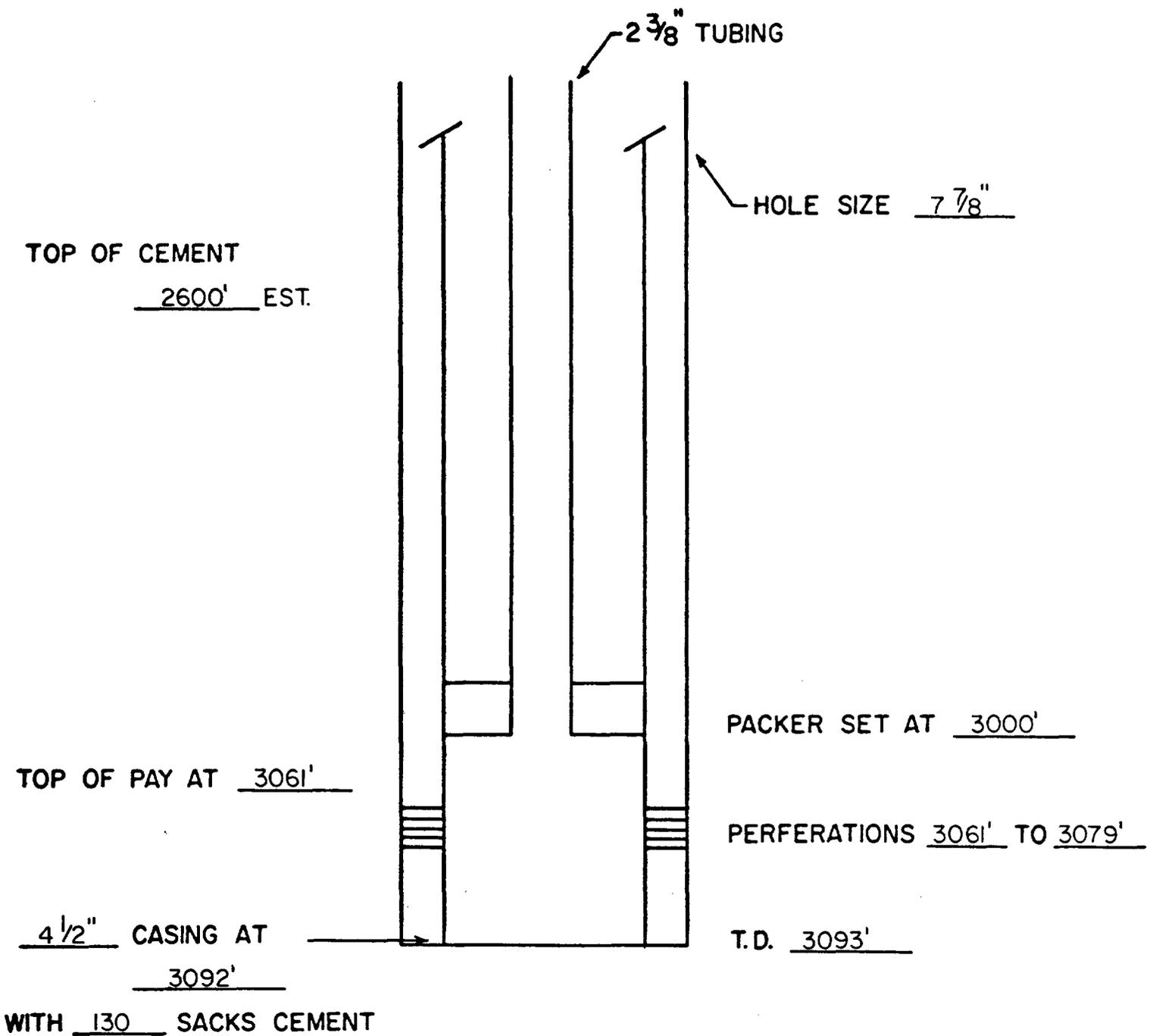
ELEVATION: 3934'

TREATMENT: NATURAL

ORIGINAL OWNER, LEASE & WELL NO.: McCLELLAN, FED., NO. 1

McCLELLAN OIL CORPORATION
EAST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO

DIAGRAMMATIC SKETCH
PROPOSED WATER INJECTION WELL
WELL NO. 13-2



OTHER WELL DATES:

COMPLETION DATE: 6-4-61

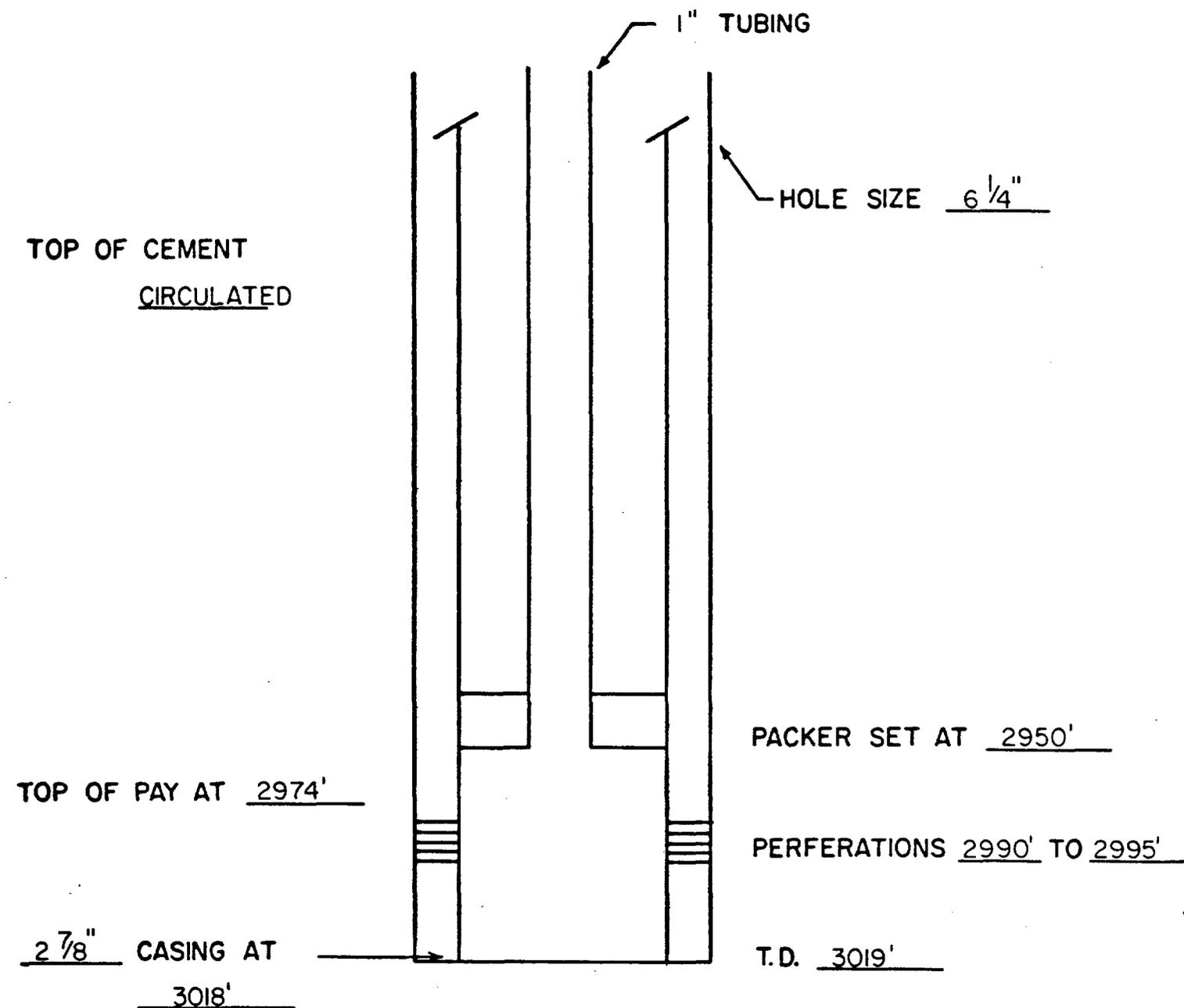
ELEVATION: 3966'

TREATMENT: 30,000* SAND

ORIGINAL OWNER, LEASE & WELL NO.: SQ UNION, FED. TAYLOR, NO. 2

McCLELLAN OIL CORPORATION
EAST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO

DIAGRAMMATIC SKETCH
PROPOSED WATER INJECTION WELL
WELL NO. 15-6



WITH 200 SACKS CEMENT

OTHER WELL DATES:

COMPLETION DATE: 10-12-61

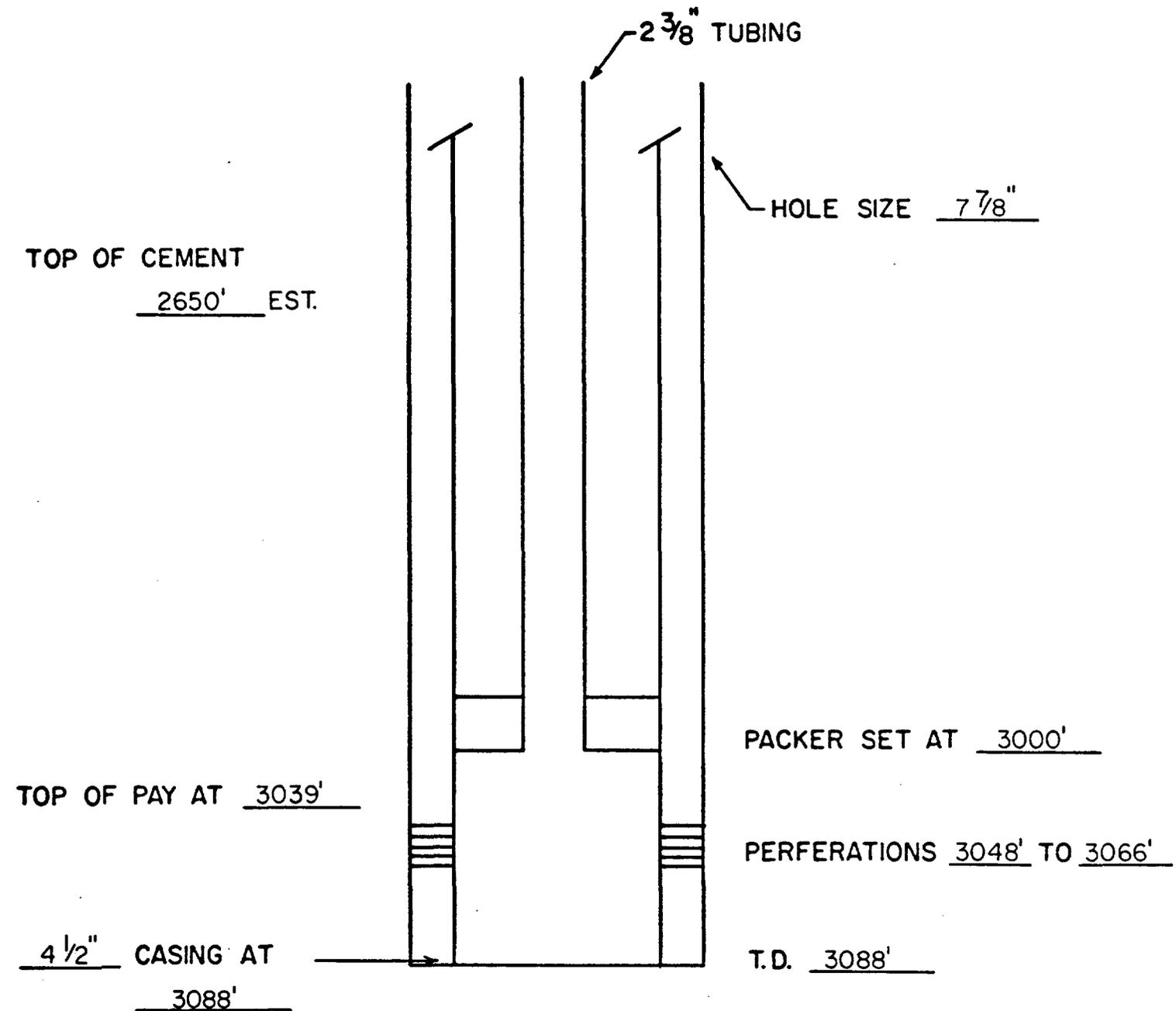
ELEVATION: 3928'

TREATMENT: 20,000# SAND

ORIGINAL OWNER, LEASE & WELL NO.: HUMBLE, STATE "BC", NO. 6

McCLELLAN OIL CORPORATION
EAST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO

DIAGRAMMATIC SKETCH
PROPOSED WATER INJECTION WELL
WELL NO. 19-3



WITH 130 SACKS CEMENT

OTHER WELL DATES:

COMPLETION DATE: 5-12-61

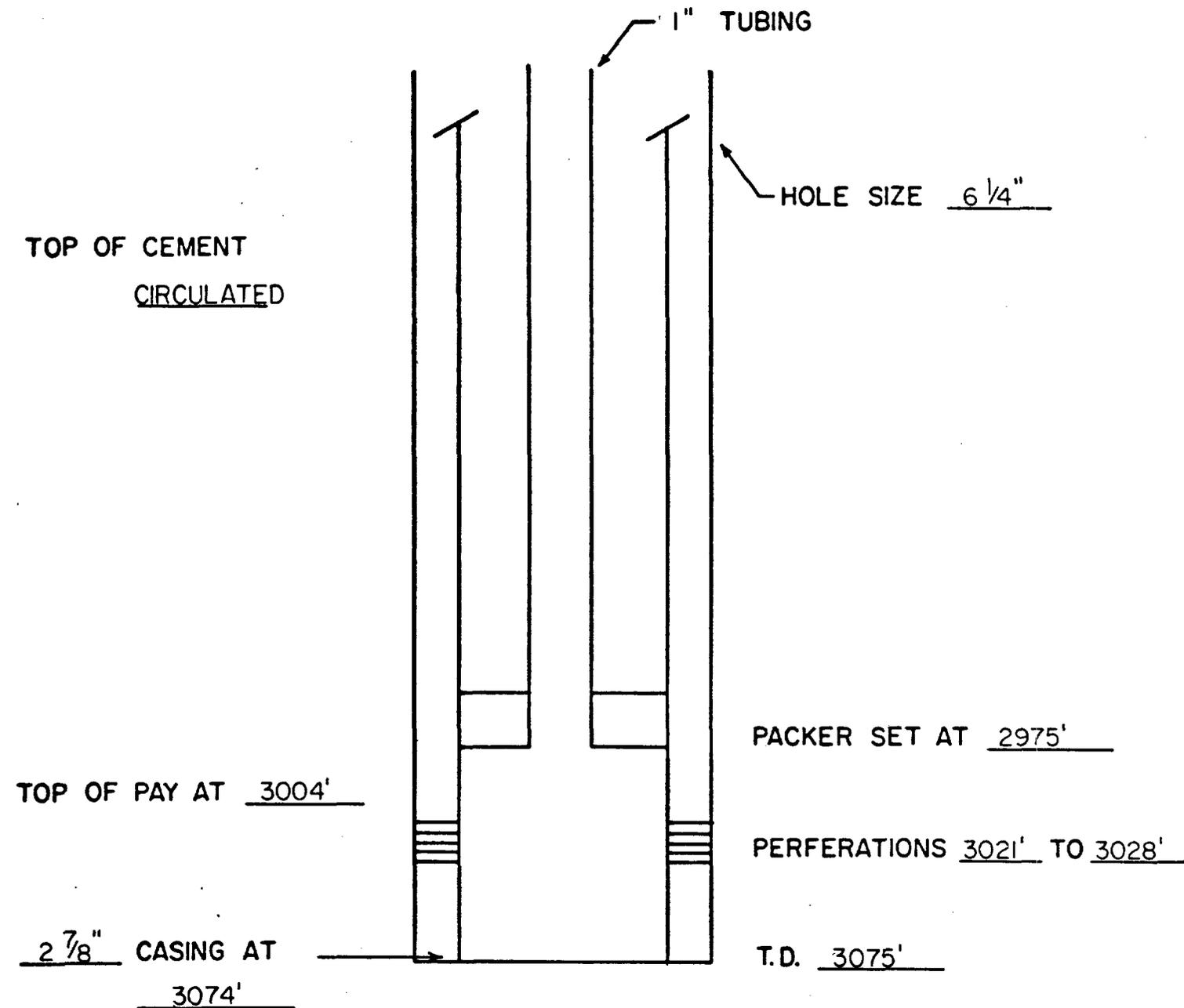
ELEVATION: 3088'

TREATMENT: 25000# SAND

ORIGINAL OWNER, LEASE & WELL NO.: BOB DEAN, UNION FED. NO. 3

McCLELLAN OIL CORPORATION
EAST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO

DIAGRAMMATIC SKETCH
PROPOSED WATER INJECTION WELL
WELL NO. 24-1



WITH 250 SACKS CEMENT

OTHER WELL DATES:

COMPLETION DATE: 9-6-61

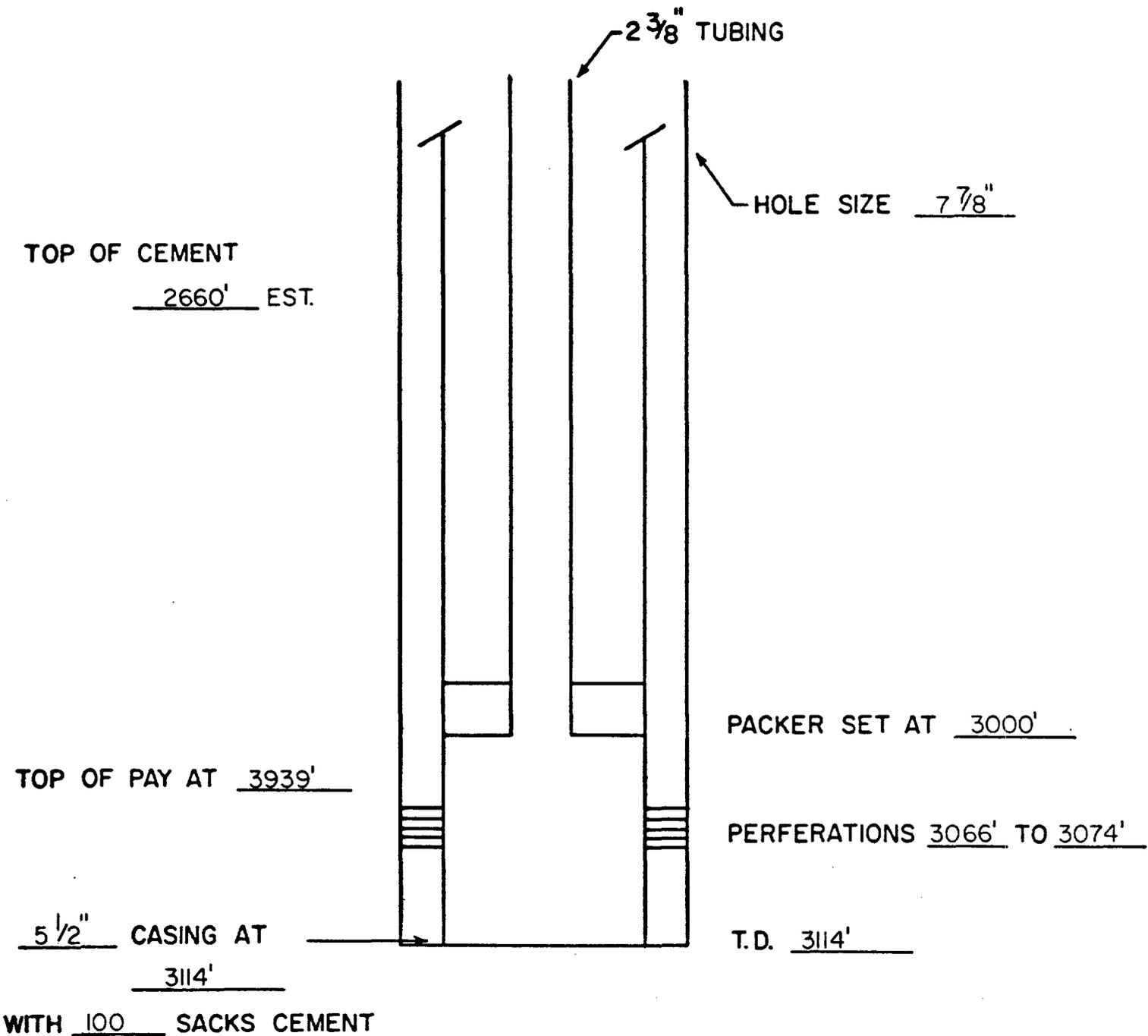
ELEVATION: 3926'

TREATMENT: 250 GAL ACID, 20,000# SAND

ORIGINAL OWNER, LEASE & WELL NO.: HUMBLE, STATE "BN", NO. 1

McCLELLAN OIL CORPORATION
EAST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO

DIAGRAMMATIC SKETCH
PROPOSED WATER INJECTION WELL
WELL NO. 26-4



OTHER WELL DATES:

COMPLETION DATE: 8-3-61

ELEVATION: 3939'

TREATMENT: 13,000* SAND

ORIGINAL OWNER, LEASE & WELL NO.: BOB DEAN, SO. UNION FED., NO. 4

(5) That the operator should take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface from injection, production, or plugged and abandoned wells.

(6) That the subject application should be approved and the project should be governed by the provisions of Rules 701, 702, and 703 of the Commission Rules and Regulations.

IT IS THEREFORE ORDERED:

(1) That the applicant, McClellan Oil Corporation, is hereby authorized to institute a waterflood project in the East Henshaw Unit Area, West Henshaw-Grayburg Pool, by the injection of water into the Grayburg formation through the following-described wells in Township 16 ~~NORTH~~, South, Range 30 ~~WEST~~, East, NMPM, Eddy County, New Mexico:

(6) That the subject waterflood project is hereby designated the McClellan East Henshaw Unit Waterflood Project and shall be governed by the provisions of Rules 701, 702, and 703 of the Commission Rules and Regulations.

(7) That monthly progress reports of the waterflood project herein authorized shall be submitted to the Commission in accordance with Rules 704 and 1120 of the Commission Rules and Regulations.

(8) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

(5) That the operator should take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface from injection, production, or plugged and abandoned wells.

(6) That the subject application should be approved and the project should be governed by the provisions of Rules 701, 702, and 703 of the Commission Rules and Regulations.

IT IS THEREFORE ORDERED:

(1) That the applicant, McClellan Oil Corporation, is hereby authorized to institute a waterflood project in the East Henshaw Unit Area, West Henshaw-Grayburg Pool, by the injection of water into the Grayburg formation through the following-described wells in Township 16 South, Range 30 East, NMPM, Eddy County, New Mexico:

<u>UNIT TRACT AND WELL NO.</u>	<u>UNIT OR LOT</u>	<u>SECTION</u>
Tract 6 Well No. 1	Lot 6 F	1
Tract 10 Well No. 4	Lot 9 I	2
Tract 11 Well No. 1	Lot 12 L	1
Tract 13 Well No. 2	Lot 10 J	1
Tract 15 Well No. 6	Lot 15 O	2
Tract 19 Well No. 3	Lot 15 O	1
Tract 24 Well No. 1	Unit 1 Q	2
Tract 26 Well No. 4	Unit 8 S	1

(2) That injection into each of said wells shall be through tubing set in a packer set within 100 feet of the uppermost perforation in the well or, in the case of open hole completions, within 100 feet of the casing shoe.

(3) That the casing tubing annulus on each of said injection wells shall be loaded with an inert fluid and equipped with an acceptable leak detection device to determine leakage of the tubing, casing, or packer.

(4) That the operator shall immediately notify the Supervisor of the Commission's Artesia district office of the failure of the tubing or packer in any of said injection wells, the leakage of water or oil from around any producing well, or the leakage of water or oil from any plugged and abandoned well within the project area and shall take such timely steps as may be necessary or required to correct such failure or leakage.

(5) That the operator shall treat the water to be injected to control corrosion, shall install corrosion coupon monitoring equipment on the injection system; and shall file the results of the periodic examination of the coupons with the Santa Fe Office of the Commission.

(6) That the subject waterflood project is hereby designated the McClellan East Henshaw Unit Waterflood Project and shall be governed by the provisions of Rules 701, 702, and 703 of the Commission Rules and Regulations.

(7) That monthly progress reports of the waterflood project herein authorized shall be submitted to the Commission in accordance with Rules 704 and 1120 of the Commission Rules and Regulations.

(8) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

WATER FLOOD STUDY

EAST HENSHAW UNIT

WEST HENSHAW GRAYBURG FIELD

EDDY COUNTY, NEW MEXICO

*If you go for the 1% override,
Sec 1 - 76.5% Income Interest
Sec 2 - 87.5% Income Interest*

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EAST HENSHAW UNIT
WATER FLOOD STUDY

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LOCATION OF FIELD & UNIT

The West Henshaw-Grayburg field is located on the Northwest Shelf of the Permian Basin in northern Eddy County, New Mexico. Production is from the Premier (Basal Grayburg) Sand of Permian age. The field is situated on a trend of intermittent Premier Sand production extending eastward for approximately 15 miles parallel to the edge of the Northwest Shelf.

This study is primarily concerned with the easternmost portion of the West Henshaw-Grayburg field in the area of the proposed East Henshaw Unit. Within the proposed unit area there are 13 producing wells and 5 dry holes. (See Enclosure #1 Proposed Unit Map).

GEOLOGY

STRUCTURE

Structure on top of the Premier Zone in this local area is homoclinal southeast dip at approximately 120 feet per mile. This generally uniform dip is interrupted by a local southeast plunging nose in the proposed Unit area. (See Enclosure #2). There is no indication that structure directly controls production or productive limits in this portion of the reservoir.

RESERVOIR

The top of the Premier Zone is encountered at an approximate depth of 3000 feet and has an average gross thickness of approximately 40 feet. This zone is composed of interbedded red shale and sand with thin stringers of dolomite and anhydrite. Directly underlying the Premier is the San Andres dolomite

The reservoir proper is the gray sand facies of the Premier which is composed of fine, well sorted, loosely cemented quartz grains. The gray sand grades laterally into red, silty sand and red shale with resultant loss of porosity and permeability. Loss of reservoir rock properties, as a result of this facies change, forms the stratigraphic trap from which this field produces.

Throughout the Premier production trend, and within the West Henshaw-Grayburg field itself, the gray sand facies is laterally discontinuous. However, over most of the proposed East Unit Area, the gray sand exhibits good continuity. (See Enclosure #3). Dry holes limit production to the north and south. No dry holes have been drilled to the east, but a general thinning of gray sand in that direction indicates production is limited to the proposed unit area. Production is limited to the northwest and southwest by dry holes. An undrilled location in the NE/4 of the SW/4 of Section 2 prevents assuming that definite separation exists between the Unit Area and the main portion of the field. For this reason the E/2 of the SW/4 Section 2 has been included in the proposed unit area.

DEVELOPMENT

The first development in the unit area was in 1961 with the completion of the Hal M. Stierwalt No. 1, So. Union Federal. The development continued with all of the wells being completed by April of 1962.

WELL COMPLETION PRACTICES

Well completions in the proposed unit area have varied from 5 1/2" casing over open hole to 2 7/8" tubing for casing. All of the wells have been sand-oil fractured. Five of the wells are completed with the 2 7/8" casing

perforated. All the other wells have 4 1/2" casing perforated with the exception of the Hal M. Stierwalt No. 1 So. Union Federal which has open hole under the 5 1/2" casing.

PRODUCTION HISTORY

The early production rates were much as expected with all the wells producing as expected during the flush production period. After all of the wells were on production by the pump the production by individual leases and wells has been very erratic and depends a great deal on the maintenance of the well bore, with hot oil, chemical, water, and cleanouts to achieve the best production rates. The primary production rate is now below 3 barrels per day on all but 3 wells in the proposed unit area, the Stierwalt State "BN" No. 1, Tidewater "AC" No. 1, and Hal Stierwalt et al No. 2. Of these three wells, the best producer is the Stierwalt et al No. 2, making 10 to 11 barrels per day. All of the active 11 wells averaged together are now producing 3 barrels per well per day, the limit calculated to be the minimum economic rate. This is shown on the history and predicted performance curve (Enclosure #4). The committee constructed individual lease decline curves which showed that in actuality all of the leases were at the end of the economic primary period and that the cumulative production to January 1, 1967 would be a more realistic parameter to use and would reflect the ultimate primary. This gives the unit area an ultimate primary of 242,394 barrels. These figures are shown by operators on the potential unitization parameters. Since some production will be made before the Unit becomes effective, an ultimate primary of 243,000 barrels was used for the flood performance calculations.

RESERVOIR DATA

POROSITY & PERMEABILITY

Of the 18 wells in the proposed unit area, 11 were cored through the Premier Sand. Porosities of the cored gray sand intervals average 14.9% with a maximum measurement of 26% and a minimum of 4.5%. Permeabilities in excess of 100 millidarcys were measured from these cores with the great majority of the gray sand falling within the 1 to 10 millidarcy range.

WATER SATURATION

There is no indication of an oil-water contact from any production or drilling data in the unit area. Therefore, capillarity appears to control water saturations. Water saturation of 28 to 43 per cent have been determined from electric log analysis in the greater West Henshaw Area and Core Laboratories has estimated 26 to 38 per cent from the cores analyzed from the unit area. Since both methods calculate a saturation of 30 to 35 per cent for the average porosity of 14.9 per cent the more conservative 35 per cent has been used.

NET PAY THICKNESS

Since more than half the wells within the proposed unit area were cored in the Premier sand, this data was used as the basis for determining net pay. A gross relationship between porosity and permeability was developed and is graphically represented by Enclosure #5. Net pay was then determined for the cored wells in the following manner:

<u>Permeability</u>	<u>Porosity</u>
0.5 md. and above	All net pay
0.5 md. - 0.2 md.	All over 11% net pay

Core porosities and, to some extent, permeabilities were correlated to radioactivity and/or electrical log characteristics for the same wells. Using these logs for correlation and interpretation net pay was then picked for the remaining wells in the area. For the producing wells net pay thicknesses average 8.7 feet, with the maximum 14 feet and the minimum 5 feet. From this data the net pay isopach map was constructed and the proposed East Unit Area reservoir volume determined at 4298 acre feet. (See Enclosure #6).

FORMATION VOLUME FACTOR

P. V. T. samples were obtained from the Shell, Williams, Federal B-1, July 6, 1959. The samples were taken from the separator. The reservoir pressure was measured at 909 PSI compared to an original pressure of 1030 PSI in the field. The samples were recombined at a gas-oil ratio of 336 cubic feet per barrel and saturation pressure of 1030 PSI and a volume factor of 1.176 were obtained.

WATERFLOOD STUDY

RESIDUAL OIL

No data or methods were available to determine residual oil saturation. However, the literature has many references to these factors from many reservoir over a wide range of values. This data indicates that residual saturations of 25 to 35 per cent are most common in this type of rock. Therefore, a residual oil saturation of 30 per cent has been assumed.

FLOOD PATTERN

The flood pattern used in this study was of a peripheral type. (See Enclosure #7). This pattern was chosen as it would give the maximum flood area consistent with high performance sweep efficiency. The Hal M. Stierwalt et al Taylor Federal Well #4, will have to be studied in more detail as to

why the poor performance and non-commercial nature. If the well is found to have a stray gas sand or due to completion, the main sands have not been effected, a work over will be required. If the study finds a small gas cap in the area (information now in hand doesn't justify this) this well will have to be used as an injection well in place of the Hal M. Stierwalt Southern Union Federal Well No. 4. The other possible change is not a problem but a modification which would leave additional current income available during fillup and give some boost to the secondary. If sufficient water could be injected without the Stierwalt et al Taylor Federal Well No. 2, the use of this well for injection could be delayed or deleted entirely. The small size of the reservoir to be flooded allows a large latitude in the flood pattern to be used with the same degree of efficiency.

WATER INJECTION RATE

The water injection rate for the flood has been set for 1000 barrels per day. This rate will require the 5 wells set up in the pattern.

PERFORMANCE CURVES

The performance curves have been constructed according to the Hurst method using the displacement factor of 3.5. (See Enclosure #8).

The flood area performance curves were modified to the permeability profile of the flood area by a method developed by Hurst and Van Everdinger. In making the profile the six cores from the Unit wells were used. Only the footages picked from those cores as net feet by the technical committee were used. The effective thickness was then calculated from the flood area developed acres and developed acre-feet. (See Enclosure #9). The basic performance curves were then used with the permeability profile in the manner shown in

Enclosure #10 to construct the modified performance curves. (See Enclosure #11).

CALCULATION OF PRODUCTION PERFORMANCE

The calculations of oil and water production were made from the modified performance curves using the basic data shown by Enclosure #12. The average porosity was taken from the same 6 cores for the Unit. The developed AC-Ft and developed acres for the flood area were picked from the 10 acres grid sheet prepared by the technical committee. This pick was made from the area that was expected to be effected by the sweep of the flood and is shown by the dotted line on Enclosure #7. The Mobile Oil was assumed to be the original oil in place less the produced and residual oil. The production from the Unit after fillup was assumed to come from the flood area only. Using this data the calculations of oil and water productions are presented by Enclosure #13. The calculations have been adjusted by 0.80 to account for the water lost to the "outside" and sand discontinuities. Enclosure #14 shows the expected production curve.

ADDITIONAL DEVELOPMENT

The only additional development recommended for completion of the flood would be the well shown on Enclosure #7. This well located on Tract #25 would give the complete peripheral coverage required for the most efficient recovery of the oil with the flood area. The well would be expected to encounter some 6.5 feet of net sand and develop a net primary reserve of 20,000 barrels with a total reserve of 47,000 barrels. The cost of this well is estimated to be \$30,000 to drill, complete and equip. Drilling the well will be delayed until the flood performance indicates the economic feasibility.

The other development location that would benefit the Unit is the location in the NE/4 of SW/4 Section #2. This location on Tract #22 could be very effective in the flood by extending the flood area of the Unit in an effective manner. It is doubtful that sufficient sand would be encountered in order to make an effective injection well. Therefore, it is not recommended that the well be drilled.

WATER SUPPLY

The water supply for the flood would come from the Double Eagle Water Company of Roswell, New Mexico. They have advised that we could contract for 500,000 barrels at a price of \$0.0275 per barrel with additional water priced at \$0.0275 per barrel. The contract would call for an initial payment of \$2750.00 for the first 100,000 barrels in advance, with the remaining paid by the month. The contract will also require the unit to have 600 barrels of storage on the Unit. The total make up requirement is established to be 1,440,000 barrels.

WATER INJECTION FACILITIES

The water injection facilities are planned as a closed system with provisions for skimming and settling on the produced water side. The produced and supply water will be mixed and injected together. The injection station will consist of one electric motor driven triplex pump. The injection system to be steel lines protected with inhibitor if required. The injection lines will be buried with an external protection.

PRODUCTION FACILITIES

The production facilities will be consolidated and facilities for LACT will be used. This is based on the assumption that the Unit can get a pipe

line connection. The Unit has sufficient pumping units to handle the expected load. These will have to be moved from the injection wells and installed where needed.

INSTALLATION COST

The summary of cost to install the flood and drill the additional well recommended as follows:

<u>Item</u>	<u>Amount</u>
Drill, complete & equip. on well Tract #25	\$30,000
Convert 5 wells to injection service	10,000
Move and install 5 pumping units & electricity	7,000
Work over one well HMS et al Fed #4	10,000
Water injection station and system	30,000
Produced water system	5,000
Consolidate tank battery, LACT, and test facilities	13,000
Contingencies	<u>5,000</u>
 Total Cost Unit	 <u>\$110,000</u>
 Tangibles	 \$ 44,800
 Intangibles	 \$ 60,200

ECONOMICS

Enclosure #14 shows the economics as derived from the calculated production and run by the Tidewater computer. The input data used here was determined by the committee. Following are definition of abbreviations used on these computer sheets:

- L. C. - Lifting Costs
- F. I. T. - Federal Income Tax
- T. O. C. - Tidewater Oil Co.
- B. F. I. T. - Before F. I. T.
- A. F. I. T. - After F. I. T.
- C. O. E. - Cash Operating Earnings (Net Income After Operating Expenses and Taxes)

It may be noted that a provision for salvage has not been made for the equipment after the end of the flood.

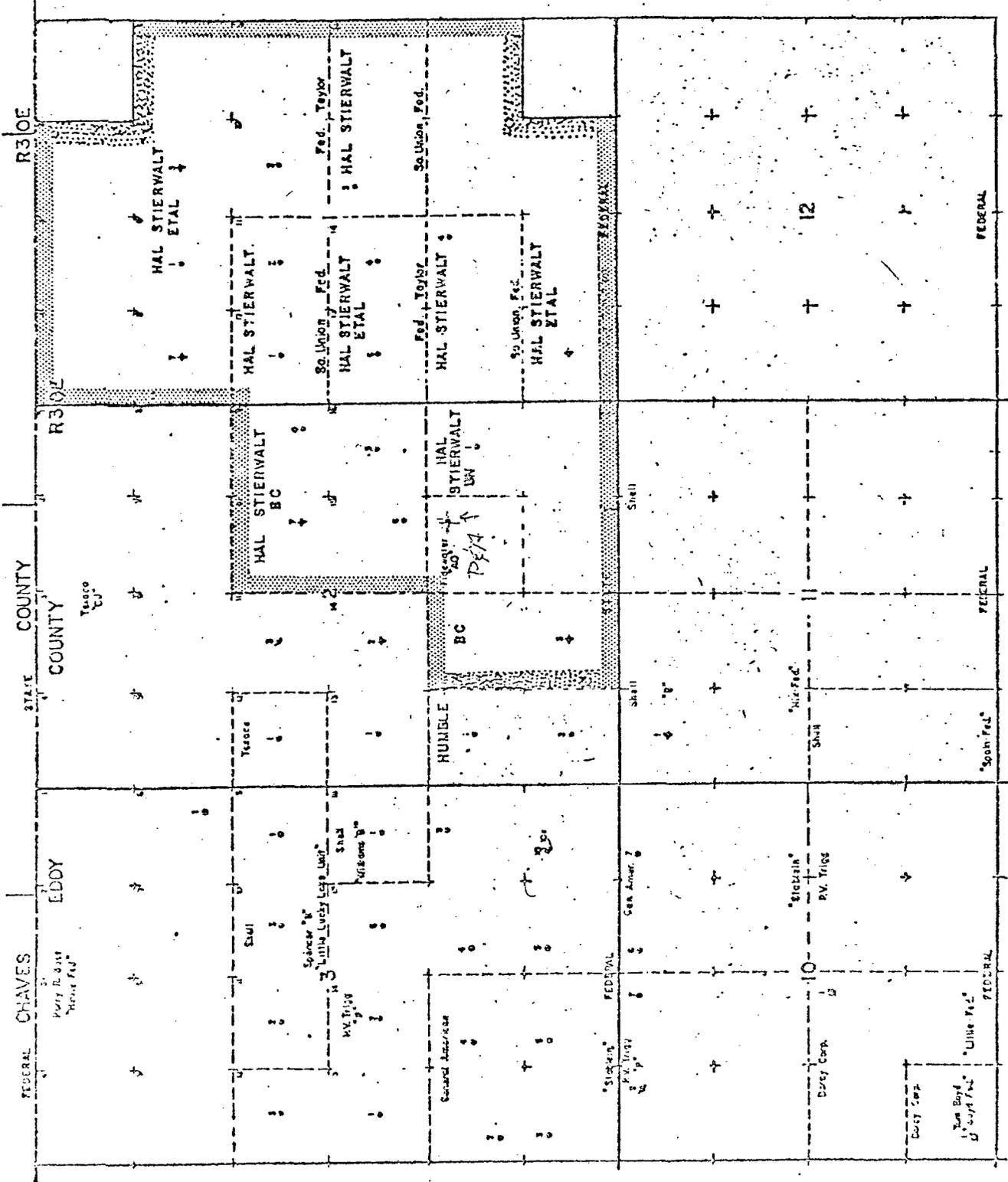
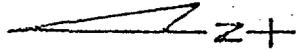
UNITIZATION

Unitization will be necessary in order to flood the East Henshaw Unit Area. The development along the lease lines and the one well lease makes a cooperative flood almost impossible. The technical committee has derived a set of potential unitization parameters. These parameters are shown on Enclosure No. 15. The calculated interest to each working interest are shown on Enclosure No. 16.

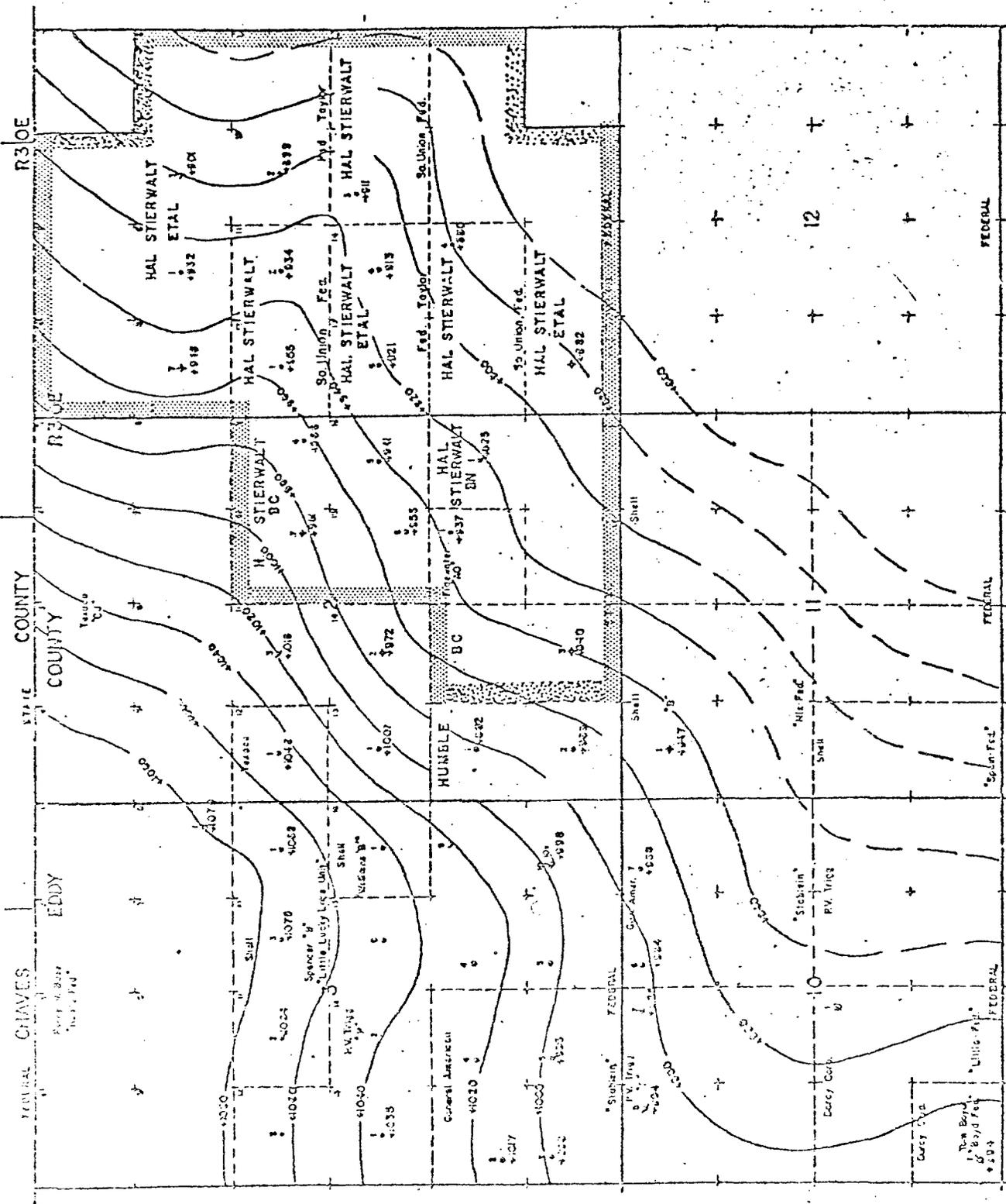
The isopach map was constructed as outlined under "Net Pay Thickness" in the Geological Section of the report. From this isopach the unit area was divided into 10 acre grids and the net pay picked for each grid by the five point method. These volumes were accumulated into 40 acre units called tracts shown on Enclosure No. 17. This data was then tabulated and given by tracts by operator. (See Enclosure #18).

The remainder of the parameters were statistically derived, therefore, they need no explanation.

BASE MAP
EAST HENSHAW
PROPOSED UNIT
AREA
PROPOSED UNIT OUTLINE
SCALE: 1"=1000'



T 16 S



STRUCTURE MAP
 TOP PREMIER SAND

PROPOSED UNIT
 AREA

PROPOSED UNIT OUTLINE

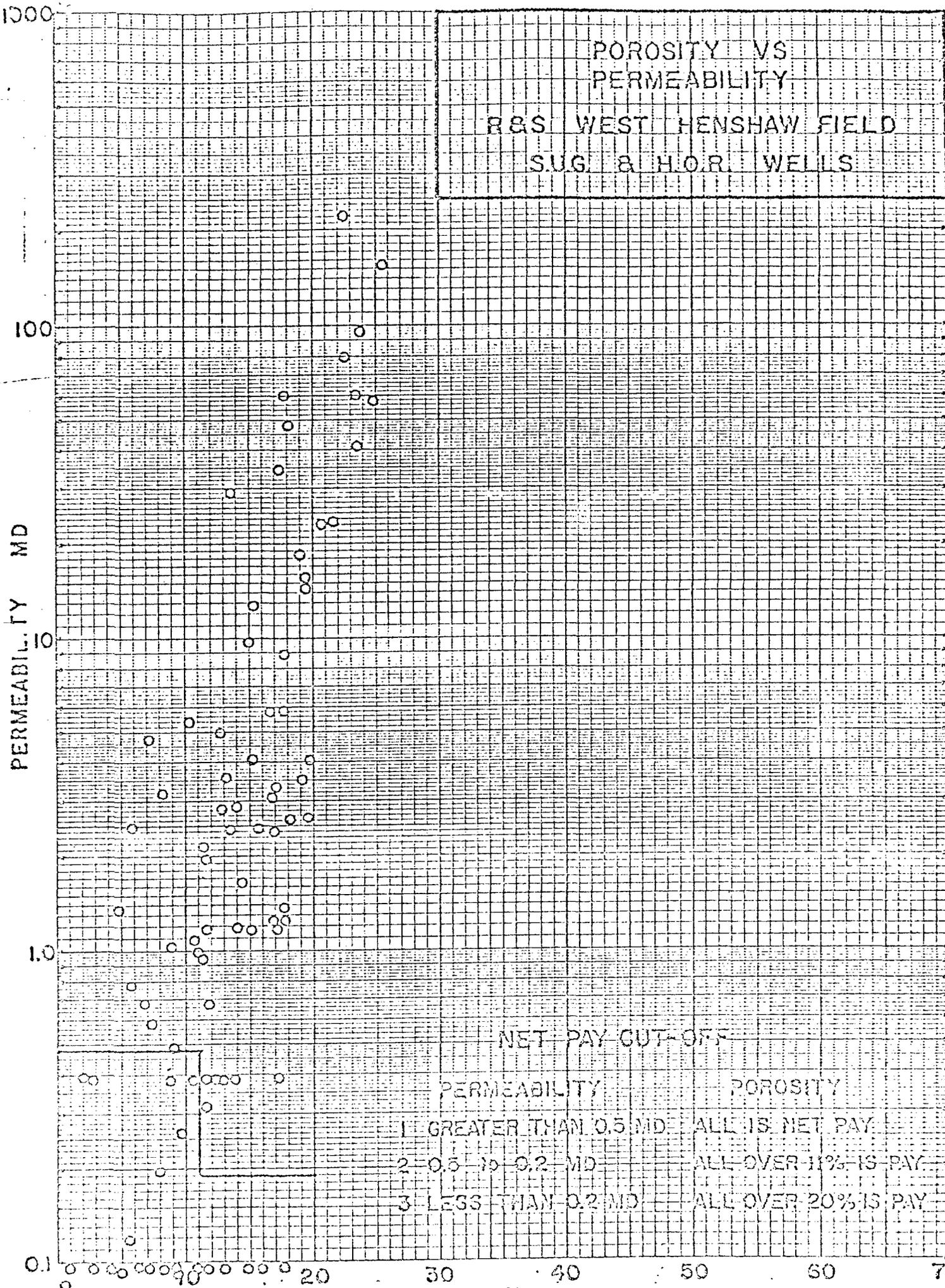
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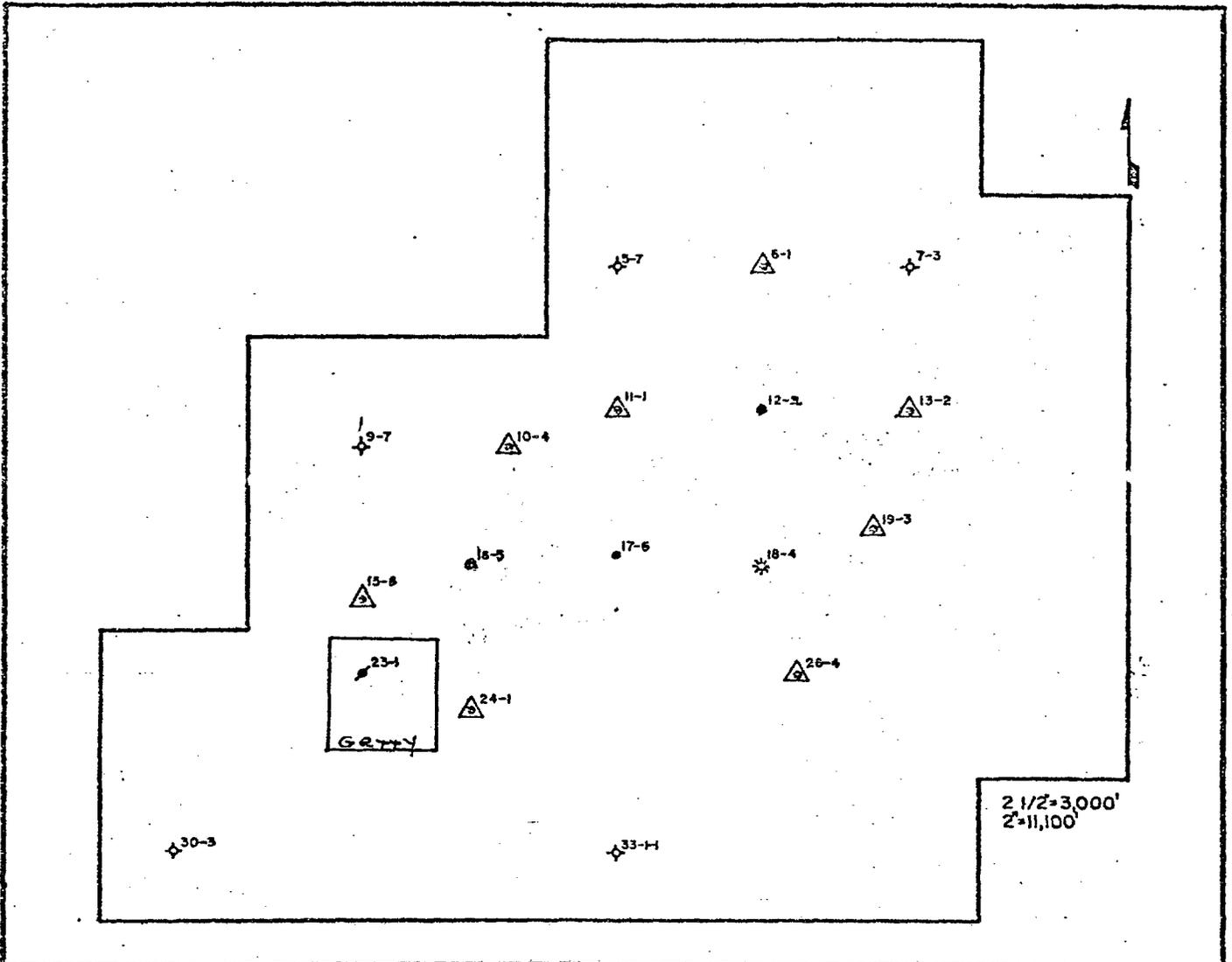
CHAVES COUNTY
 EDDY COUNTY
 STATE COUNTY

T 16 S

PRINTED IN U.S.A.
10 DIVISIONS PER INCH ON SHORT SIDE
FOUR 24-INCH CYCLES ON LONG SIDE

POROSITY VS
PERMEABILITY
R&S WEST HENSHAW FIELD
SUG. & H.O.R. WELLS

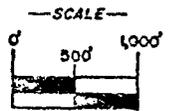


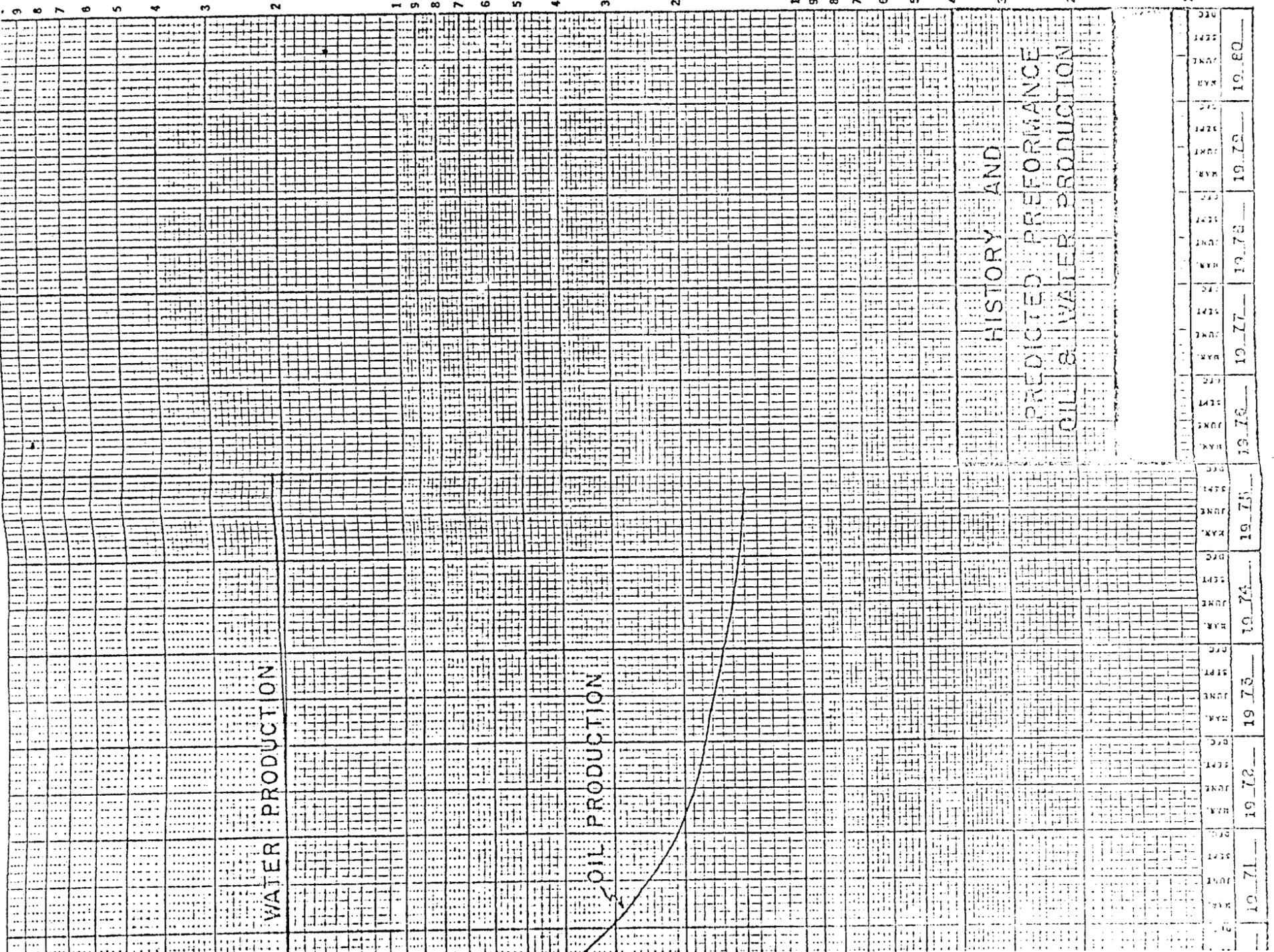
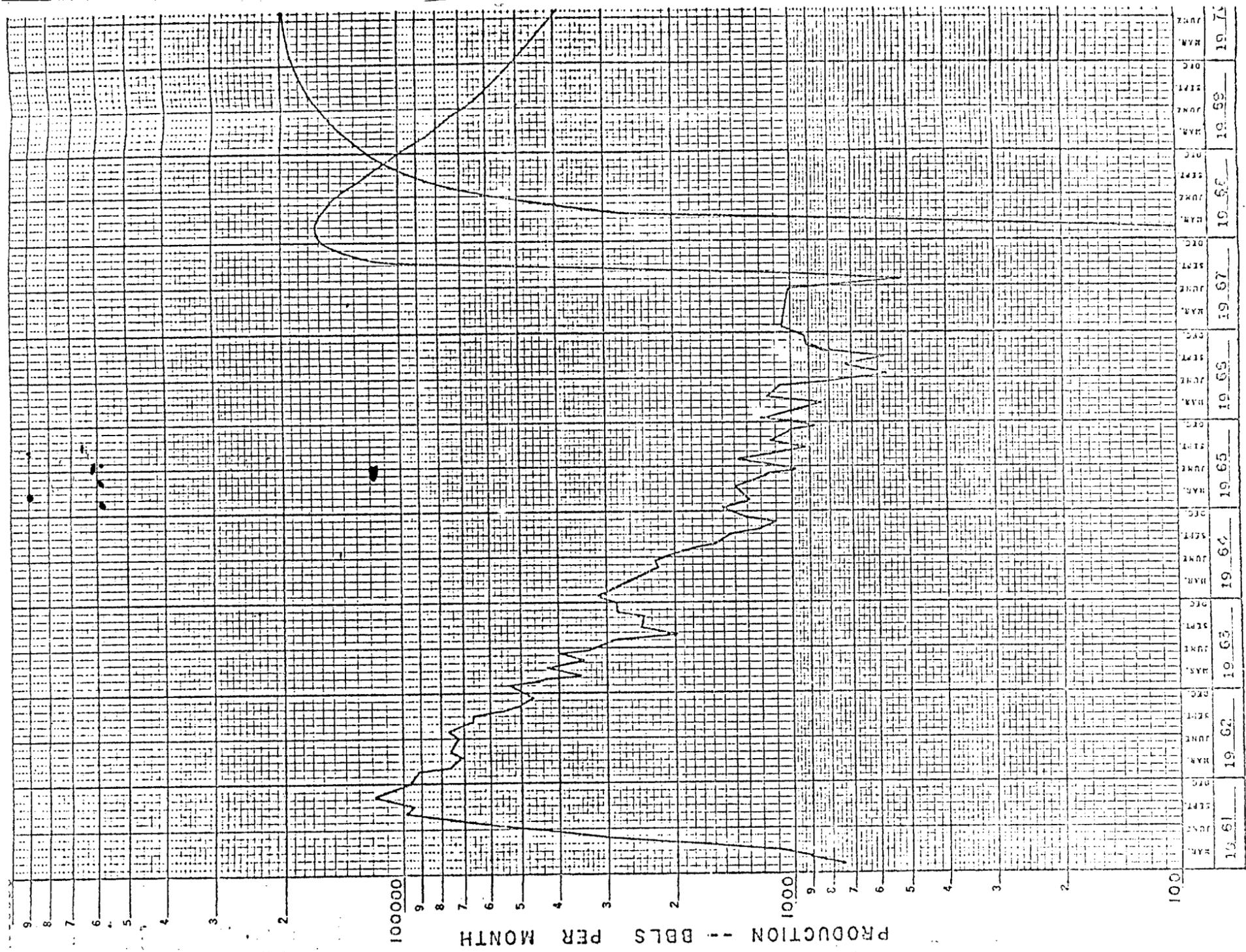


— LEGEND —

- OIL WELL
 - ★ GAS WELL
 - ◇ DRY HOLE
 - ⊠ PLUGGED WELL
 - △ INJECTION WELL
- 11-1 TRACT NO.—WELL NO.

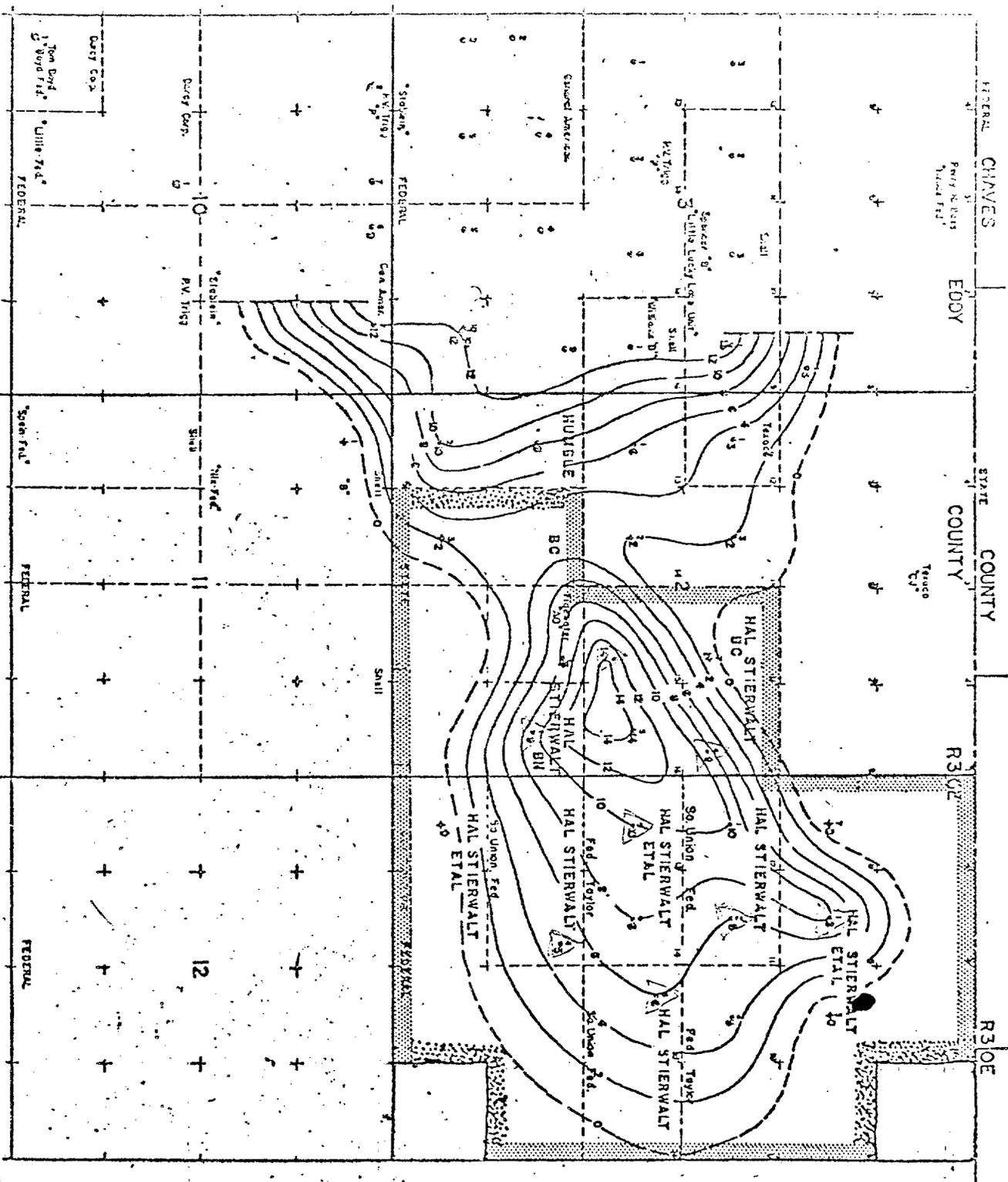
MCCLELLAN OIL CORPORATION
EAST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO





HISTORICAL PERFORMANCE
 GULF & WATER PRODUCTION

Month	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
JAN																				
FEB																				
MAR																				
APR																				
MAY																				
JUN																				
JUL																				
AUG																				
SEP																				
OCT																				
NOV																				
DEC																				



NET PAY ISOPACH
 PREMIER SANDS
 PROPOSED UNIT
 AREA OUTLINE
 PROPOSED UNIT
 SCALE: 1"=1000'

PERMEABILITY DISTRIBUTION AND EFFECTIVE THICKNESS
IN LAYERS PREMIER SAND, EAST HENSHAW UNIT

<u>Layer No.</u>	<u>Permeability Range (Md)</u>	<u>No. of Samples</u>	<u>Mean Perm (Md)</u>	<u>Effective Thickness Ft.</u>
1	128 - 64	6	96	0.880
2	64 - 32	7	48	1.030
3	32 - 16	5	24	0.730
4	16 - 8	6	12	0.880
5	8 - 4	4	6	0.590
6	4 - 2	14	3	2.050
7	2 - 1	9	1.5	1.320
8	1 - 0.5	<u>9</u>	0.75	<u>1.320</u>
		60		8,800

The Total Thickness Calculated from AC - Ft. in flood area and acres effected.
The Permeability from 6 Cores in the Unit Flood Area. Humble State "BC" No. 5 & 6, and State "BN" No. 1. Hal Stierwalt et al Taylor Federal Nos. 1, 2 and 6.

REPRESENTATIVE CALCULATION OF MODIFIED PERFORMANCE CURVES

(1) H Ft.	(2) K Md	(3) Water Injected % F V S	(4) (1)x(3)	(5) Oil Recovered (% Mobil Oil)	(6) (1)x(5)	(7) Water Production % F V S	(8) (1)x(7)
0.880	96	50.00	44.00	30.60	26.93		
1.030	48	25.00	25.75	2.90	2.99		
0.730	24	12.50	91.25				
0.880	12	6.25	55.00				
0.590	6	3.13	18.44				
2.050	3	1.56	31.98				
1.320	1.50	0.78	10.30				
1.320	0.75	0.39	5.15				
<u>8.800</u>		<u>10.34</u>	<u>909.62</u>	<u>3.40</u>	<u>29.92</u>		
0.880	96	100.00	88.00	82.20	72.34	12.50	11.00
1.030	48	50.00	51.50	30.60	31.53		
0.730	24	25.00	18.25	2.90	2.12		
0.880	12	12.50	11.00				
0.590	6	6.25	3.69				
2.050	3	3.13	6.40				
1.320	1.50	1.56	2.06				
1.320	0.75	0.78	1.03				
<u>8.800</u>		<u>20.67</u>	<u>181.93</u>	<u>12.04</u>	<u>105.98</u>	<u>1.25</u>	<u>11.00</u>
0.880	96	1600.00	1408.00	99.60	87.65	1500.00	1320.00
1.030	48	800.00	824.00	99.60	102.59	700.00	721.00
0.730	24	400.00	292.00	99.60	72.71	300.00	219.00
0.880	12	200.00	176.00	99.60	87.65	100.00	88.00
0.590	6	100.00	59.00	82.20	48.50	12.50	7.38
2.050	3	50.00	102.50	30.60	62.73		
1.320	1.50	25.00	33.00	2.90	3.83		
1.320	0.75	12.50	16.50				
<u>8.800</u>		<u>330.80</u>	<u>2911.00</u>	<u>52.92</u>	<u>465.66</u>	<u>267.66</u>	<u>2355.38</u>

BASIC DATA
R 2 S EAST HENSHAW UNIT

	<u>Total Unit</u>	<u>Flood Area</u>
Average Porosity (%)	14.9	14.9
Connate Water Saturation (%)	35	35
Formation Volume Factor	1.176	1.176
Developed Acres	593	302
Developed Acre Feet	3791	2669
Average Thickness (calc. ft.)	6.4	8.8
Original Oil - In - Place (MSTB)	2420	1705
Residual Oil Saturation (%)	30	30
Floodable Void Space (Mbbbls.) (1)	-	1404
Mobil Oil (MSTB) (2)	-	1020
Cumulative Production (Mbbbls)	243	173
Primary Ultimate Production (Mbbbls.)	243	173
Primary Recovery (%)	10	10
Ultimate Recovery With Flood (Mbbbls.)	584	514
Increase Over Primary (Mbbbls.)	341	341
Recovery With Flood (%)	24	30

(1) Floodable void space is pore volume less residual oil saturation.

(2) Mobil oil is original oil - in - place (STB) less residual oil (STB) and produced oil (STB).

CALCULATION OF OIL AND WATER PRODUCTION

<u>Year</u>	<u>Cumulative Water Injected</u>	<u>Input % Floodable Void Space</u>	<u>Per Cent Mobile Cum.</u>	<u>Oil Prod.</u>	<u>Oil Produced</u>	<u>Corrected Oil Produced (0.8)</u>	<u>Cum. Oil Produced</u>	<u>Avg. Oil Prod. (Bbls / Mo.)</u>
1/4	90,000	6.41						
1/2	180,000	12.82	6.00	6.00	61,000	48,800	48,800	16,300
3/4	270,000	19.23	11.25	5.25	53,600	42,900	91,700	14,300
1	360,000	25.64	14.75	3.50	35,700	28,600	120,300	9,533
1 1/4	450,000	32.05	18.25	3.50	35,700	28,600	148,900	9,533
1 1/2	540,000	38.46	21.25	3.00	30,600	24,500	173,400	8,167
1 3/4	630,000	44.87	23.50	2.25	23,000	18,400	191,800	6,133
	720,000	51.28	25.50	2.00	20,400	16,300	208,100	5,433
3	1,080,000	76.92	31.25	5.75	58,700	47,000	255,100	3,917
4	1,440,000	102.56	34.25	3.00	30,600	24,500	279,600	2,041
5	1,800,000	128.21	37.00	2.75	28,100	22,500	302,100	1,875
6	2,160,000	153.85	39.50	2.50	25,500	20,400	322,500	1,700
7	2,520,000	179.49	41.75	2.25	23,000	18,400	340,900	1,533
8	2,880,000	205.13	43.75	2.00	20,400	16,300	357,200	1,358

Input rate estimated at 1,000 barrels of water per day (200 B/D per well x 5 wells)
 Floodable void space - 1,404,000
 Mobile Oil - 1,020,000 bbls.
 Economic limit - 1500 bbls. oil per month

CALCULATION OF OIL AND WATER PRODUCTION

<u>Year</u>	<u>Cum. % of Void Space Flooded</u>	<u>% of Void Space Flooded</u>	<u>Water Produced</u>	<u>Corrected Water Produced</u>	<u>Cumulative Water Produced</u>	<u>Avg. Wtr. Prod. (Bbls/Mo)</u>	<u>Estimated Total Fluid Production</u>
1/4							
1/2							67,392
3/4	0.75	0.75	10,530	8,424	8,424	2,805	67,392
1	3.00	2.25	31,590	25,272	33,696	8,412	64,584
1/4	5.75	2.75	38,610	30,888	64,584	10,286	70,200
1/2	9.25	3.50	49,140	39,312	103,896	13,103	73,008
3/4	13.50	4.25	59,670	47,736	151,632	15,910	73,008
2	18.25	4.75	66,690	53,352	204,984	17,782	75,816
3	38.25	20.00	280,800	224,640	429,624	18,719	289,224
4	59.50	21.25	298,350	238,680	668,304	19,889	272,376
5	81.25	21.75	305,370	244,296	912,600	20,357	275,184
6	104.00	22.75	319,410	255,528	1,168,128	21,293	283,608
7	127.50	23.50	329,940	263,952	1,432,080	21,995	289,224
8	151.00	23.50	329,940	263,952	1,696,032	21,995	286,416

INPUT DATA

CASE NO. 94036
DATE 6/7/66

FIELD - HENSHAW W. GRAYBURG LEASE - R AND S WEST HENSHAW UNIT SEQ.NO. 44750 NEW OR REV. - NEW TOC OP. - NO CARD 1

AREA OFFICE - HOBBS-NEW MEXICO PROD. ZONES - PREHIER BASAL GRAYBURG SAND OF PERHIAN SAND VOL. - 2669 CARD 2

CO. AND STATE - EDDY CO. NEW MEXICO IS MARKET AVAILABLE - YES MARKET DATE - CARD 3

S PROD. RESTRICTED - YES DEPTH 3000 TYPE OF COMPLETION - SINGLE REASON CODE - 1

LOCATION - SEC 1 AND 2 T16S R30E 1360 ACRES CARD 4

OPERATOR - HAL W. STIERMULLT PARTNERS - HURDLE, SO. UNION, TIDEWATER CARD 5

COSTS - DRY HOLE = -0 COMP. WELL = 52000 FACILITIES = 51000 ART. LIFT = 7000 TOTAL = 110000 CARD 6

ACTIVE PROJECTS - PCT. COMPLETE -0 PROPOSED PROJECTS - STARTING YEAR 1967

GROSS OIL RES. = 341000BBLs, GROSS GAS WELL GAS RES = -0HCF, N.I. = 1.0000000 NET INT. = 0.8750000 CARD 7

NET PROFITS INTEREST, IF ANY = *****

OIL ZONE E.L. = 18000 PCT. OF RES. PROD. AT CONST RATE = -0.0 OR ANTICIPATED DECLINE RATE = -0.0 GOR = -0 CARD 8

PLANT LIQ. YIELD = -0.0

GAS ZONE E.L. = -0 PCT. OF RES. PROD. AT CONST RATE = -0.0 OR ANTICIPATED DECLINE RATE = -0.0 CARD 9

COND. YIELD = -0.00 PLANT LIQ. YIELD = -0.0

PRICES - CRUDE = 2.830\$/B ASSOC. GAS = ,*****/HCF GAS WELL GAS =*****/HCF COND. =*****/B PLANT LIQ. =***** CARD 10

PLANT PROCESSING CHARGE (PCT. OF LIQ) = -0.0

PROD TAX CRUDE = 0.180\$/B ASSOC. GAS =*****/HCF GAS WELL GAS =*****/HCF COND. =*****/B PLANT LIQ. =***** CARD 11

OP. COST (100 PCT N.I.) = 40000\$/YEAR

YEAR	DATA	YEAR	DATA	YEAR	DATA	YEAR	DATA	YEAR	DATA	CARD	TYPE OF DATA	
1	9100	2	111200	3	87800	4	47000	5	24500	6	22500	101 GROSS OIL PROD.
7	20400	8	18500	-0	-0	-0	-0	-0	-0	-0	-0	101 GROSS OIL PROD.
1	44800	2	2500	-0	-0	-0	-0	-0	-0	-0	-0	118 TANG. INVESTMENT.
1	60200	2	2500	-0	-0	-0	-0	-0	-0	-0	-0	119 INTANGIBLE INV.
UNIT CONSIDERED TO BE EFFECTIVE 1-1-67. GAS PRODUCTION TO BE USED FOR												
UNIT.												

DATA ERRORS -- CASE NO. 94036

LEGEND
NECESSARY DATA - CANNOT BE IGNORED.
MISSING DESCRIPTIVE INFORMATION.

EAST HENSHAW

POTENTIAL UNITIZATION PARAMETERS

<u>TRACT</u>	<u>OPERATOR</u>	<u>NO. WELLS</u>	<u>PRODUCTIVE ACRES</u>	<u>DEVELOPED ACRES</u>	<u>PRODUCTIVE ACRE-FEET</u>	<u>DEVELOPED ACRE-FEET</u>	<u>CUMULATIVE PRODUCTION TO 1-1-75</u>
1	Stierwalt, Hal M. Federal	8	542.7	360	2,552.7	2,275.8	117,918
2	Stierwalt, Hal M. State "BC"	3	203.5	153	1,209.4	1,000.4	104,838
3	Stierwalt, Hal M. State "BN"	1	56.0	40	333.7	312.6	30,588
4	Tidewater	1	40.0	40	202.4	202.4	21,730
TOTAL		13	842.2	593	4,298.2	3,791.2	275,074

Recent Production 4,469
 1973 Production: 6,411
 1974 Production: 6,411

11,080

Average daily production from Sec. 1: 3-5 bbls. oil/day
 Average daily production from Sec. 2: 22-25 bbls. oil/day
 Producing from Sec. 2: Tract 10-4 & 10-6
 Producing from Sec. 1: Tract 11-1, 12-2, 19-3

EAST HENSHAW

POTENTIAL UNITIZATION PARAMETERS

<u>TRACT</u>	<u>OPERATOR</u>	<u>NO. WELLS</u>	<u>PRODUCTIVE ACRES</u>	<u>DEVELOPED ACRES</u>	<u>PRODUCTIVE ACRE-FEET</u>	<u>DEVELOPED ACRE-FEET</u>	<u>CUMULATIVE PRODUCTION TO 1-1-75</u>
1	Stierwalt, Hal M. Federal	61.53846	64.43837	60.70826	59.38998	60.02849	42.86774
2	Stierwalt, Hal M. State "BC"	23.07692	24.16291	25.80101	28.13736	26.38742	38.11265
3	Stierwalt, Hal M. State "BN"	7.69231	6.64925	6.74536	7.76371	8.24541	11.11992
4	Tidewater	7.69231	4.74947	6.74537	4.70895	5.33868	7.89969
TOTAL		100.00000	100.00000	100.00000	100.00000	100.00000	100.00000

TECHNICAL COMMITTEES TRACT
DETERMINATION OF DEVELOPED ACRE FEET

<u>Tract No.</u>	<u>Wells</u>	<u>Prod. Wells</u>	<u>Unit Acres</u>	<u>Prod. Acres</u>	<u>Dev. Acres</u>	<u>Acre Feet</u>	<u>Dev. Acre Feet</u>
9	State "BC" #7		40.00	17.00		19.4	
10	State "BC" #4	1	40.00	33.00	33.00	163.6	163.6
15	State "BC" #6	1	40.00	40.00	40.00	297.2	197.2
16	State "BC" #5	1	40.00	40.00	40.00	482.4	482.4
22	None		40.00	40.00	40.00*	157.2	157.2*
24	State "BN" #1	1	40.00	40.00	40.00	312.6	312.6
30	State "BC" #3		40.00	33.50		89.6	
31	None		40.00	3.50		1.6	
32	None		40.00	12.50		19.5	
	Stierwalt Total	4	360.00	259.50	193.00	1543.1	1313.0
23	State "AO" #1	1	40.00	40.00	40.00	202.4	202.4
	Tidewater Total	1	40.00	40.00	40.00	202.4	202.4
11	S. U. Fed #1	1	40.00	40.00	40.00	324.2	324.2
12	S. U. Fed #2	1	40.00	40.00	40.00	269.8	269.8
19	S. U. Fed #3	1	40.00	40.00	40.00	194.0	194.0
20	None		40.00	32.00		49.0	
25	None		40.00	40.00	40.00*	253.4	253.4*
26	S. U. Fed #4	1	40.00	40.00	40.00	169.0	169.0
	Hal Stierwalt Total	4	240.00	232.00	200.00	1259.4	1210.4
1	None		40.66	0.20		0.1	
2	None		40.74	11.00		11.1	
3	None		40.82	1.00		.4	
4	None		40.90				
5	Taylor Fed #7		40.00	18.00		39.7	
6	Taylor Fed #1	1	40.00	40.00	40.00	206.0	206.0
7	Taylor Fed #3		40.00	17.50		24.0	
8	None		40.00	1.50		.2	
13	Taylor Fed #2	1	40.00	40.00	40.00	161.6	161.6
14	None		40.00	30.00		40.3	
17	Taylor Fed #6	1	40.00	40.00	40.00	397.4	397.4
18	Taylor Fed #4	1	40.00	40.00	40.00	300.4	300.4
27	None		40.00	37.50		78.6	
28	None		40.00	8.00		4.3	
33	Fed #1-1		40.00	13.00		19.4	
34	None		40.00	10.00		8.8	
35	None		40.00	3.00		1.0	
36	None		40.00				
	Hal Stierwalt et al Total	4	723.12	310.70	160.00	1293.7	1065.4

* Undeveloped but could be developed for the flood

McCLELLAN OIL CORPORATION
 EAST HENSHAW PREMIER UNIT
 WEST HENSHAW GRAYBURG FIELD
 EDDY COUNTY, NEW MEXICO

WELL RECORDS

Well No.	Tr. No.	Original Operator, Lease	Completion Date	Total Depth	Casing Record Size @ Seat	Elev.	Premier Sands		Net Thickness	Completion Interval	Remarks
							Subsurf.	Top			
5-7		So. Union Prod. Co., Fed.-Taylor	7-22-61	3120	4 1/2 @3068	3959	3001	+928	0'	3031-3046	Dry Hole
6-1		So. Union Prod. Co., Fed.-Taylor	5-22-61	3068	130	3963	3021	+942	7'	-	Acidized w/200 gal., Frac w/27,500#; IFF 144 BOPD
7-3		So. Union Prod. Co., Fed.-Taylor	9-15-61	3107	See Remarks	3975	3058	+917	2'	-	Set 4 1/2" @3098 w/130 sx; Perf. 3076-88; Acidized and fraced twice; P & A
9-7		Humble Oil, New Mex. State "BC"	12-12-61	3008	See Remarks	3940	2960	+980	Tr.	-	Set 2 7/8" @3004 w/250 sx; Perf. 2962-66 and 2968-72; Fraced twice; P & A
10-4		Humble Oil, New Mex. State "BC"	6-4-61	3150	2 7/8 @3150	3947	2982	+965	8'	2991-3001	Frac w/30,000#; IFF B16 BOPD
11-1		Jack McClain, So. Union-Fed.	1-15-61	3005	5 1/2 @2976	3934	2980	+954	10'	2976-3005(OH)	Natural IFF - 150 BOPD
12-2		Bob Dean Ltd., So. Union-Fed.	4-12-61	3042	4 1/2 @3042	3944	3014	+930	5'	3026-3036	Frac w/30,000#; IFF 170 BOPD
13-2		So. Union Prod. Co., Fed.-Taylor	6-4-61	3093	4 1/2 @3092	3966	No Log Available			3061-3079	Frac w/30,000#; IFF 400 BOPD
15-6		Humble Oil, New Mex. State "BC"	10-12-61	3019	2 7/8 @3018	3928	2974	+954	12'	2990-2995	Frac w/20,000#; IFF 496 BOPD
16-5		Humble Oil, New Mex. State "BC"	7-13-61	3179	2 7/8 @3175	3938	2993	+945	12'	3008-3012	Frac w/20,000#; IFF 227 BOPD
17-6		So. Union Prod. Co., Fed.-Taylor	7-15-61	3052	4 1/2 @3052	3936	3024	+912	10'	3034-3048	Acidized w/300 gal., Frac w/30,000#; IFF 48 BOPD + 1 BOPD
18-4		So. Union Prod. Co., Fed.-Taylor	9-10-62	3080	4 1/2 @3077	3943	3024	+919	7'	3040-3070	Acidized w/100 gal., Frac w/40,000#; IFF 7,830 MCF/D
19-3		Bob Dean Ltd., So. Union-Fed.	5-12-61	3088	4 1/2 @3088	3957	3039	+918	6'	3048-3054	Frac w/25,000#; IFF 145 BOPD
23-1		Tidewater, New Mex. State "AO"	1-15-62	3056	2 7/8 @3053	3924	2982	+942	7'	3050-3066	Frac w/30,000#; IFF 396 BOPD; P & A 2-72
24-1		Humble Oil, New Mex. State "BN"	9-5-61	3075	2 7/8 @3074	3926	3004	+922	8'	2996-3008	Acidized w/250 gal., Frac w/20,000#; IFF 444 BOPD
26-4		Bob Dean Ltd., So. Union-Fed.	8-3-61	3114	5 1/2 @3114	3939	3056	+883	5'	3021-3028	Frac w/13,000#; IFF 47 BOPD
30-3		Humble Oil, New Mex. State "BC"	6-21-60	3020	-	3903	2962	+941	0	3066-3074	Dry Hole
33-1-1		So. Union Gas Co., Federal	4-30-60	3220	-	3930	No Log Available		0	-	Dry Hole



BEFORE EXAMINER STAMETS
 OIL CONSERVATION COMMISSION
 McClellan EXHIBIT NO. 688
 CASE NO. 5489 + 5460
 Submitted by _____
 Hearing Date 4/20/75