

NEW MEXICO DEPARTMENT OF ENERGY & MINERALS

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF MOBIL OIL CORPORATION FOR AN ORDER PROVIDING FOR UNIT OPERATION OF A PORTION OF THE NORTH VACUUM ABO FORMATION UNDERLYING THE PROPOSED UNIT AREA, LEA COUNTY, NEW MEXICO, AND KNOWN AS THE "NORTH VACUUM ABO EAST UNIT."

Case No. 6247

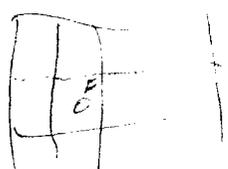
A P P L I C A T I O N

1. Mobil Oil Corporation ("Mobil") hereby makes application for an order providing for the unit operation of the North Vacuum Abo East Unit containing 865.74 acres, more or less. The proposed unit area is described as follows:

<u>Lease Name</u>	<u>Lot</u>	<u>Section</u>	<u>Township</u>	<u>Range</u>	<u>Acres</u>
State "JJ"	3&4	7	17S	35E	75.18
State "A" Com.		E/2 SW/4	"	"	80.0
State "TT" Com.		N/2 SE/4	"	"	80.0
State "MM"		S/2 SE/4	"	"	80.0
State "DJ"		NE/4	18	"	"
State "DJ"	1&2	18	"	"	315.26
State "DJ"		E/2 NW/4	18	"	"
State "K"	3	18	"	"	"
State "K"		NE/4 SW/4	18	"	77.64
ELK State Com.	4	18	"	"	"
ELK State Com.		SW/4 SE/4	18	"	157.66
ELK State Com.		NW/4 SE/4	18	"	"
ELK State Com.		SE/4 SW/4	18	"	"

A plat of the unit area is attached hereto and marked Exhibit "1". Applicant is a working interest owner within the proposed unit area. The vertical limits to be included in the proposed unit area are the Abo Formation between the depths of 8,420 feet (minus 4,385 feet sub-sea) and 9,260 feet (minus 5,225 feet sub-sea) on the Schlumberger Dual Induction Laterolog, run on June 7, 1974, in Mobil's State "UU" Com. Well No. 1, located 1,980 feet FNL and 1,980 feet FWL, Section 7, Township 17 South, Range 35 East, N.M.P.M., Lea County, New Mexico, and

*Dismiss statutory utilization
see amendment, p 3*



are to include all subsurface points throughout the unit area correlative to those identified depths.

2. Mobil is the working interest owner in Tracts Nos. 1, 2, 4 and 6 and is part interest owner in Tracts Nos. 3 and 7, as those tracts are identified and described in the Unit Agreement, a copy of which is attached hereto and made a part of this Application and marked as Exhibit "2". Mobil considers the plan of unitization to be fair, reasonable and equitable.

3. The portion of the North Vacuum Abo reservoir involved in this Application has been reasonably defined by development by the drilling of 11 wells at locations shown on Exhibit "1".

4. Type of operations contemplated for the unit area is pressure maintenance by the injection of water by converting five currently producing wells to water injection using an 80-acre five-spot flood pattern. Injection will be into the Abo Formation at depths ranging from 8,420 feet to 9,260 feet beneath the surface. Injection will be through corrosion resistant line tubing with a packer set above the injection interval. Initial injection will be at the rate of 500 barrels of water per day with pressures to be maintained below fractional pressure and at approximately 4,800 pounds per square inch. Injection water will be fresh water from Mobil's existing water rights through supply wells completed in the Ogallala Formation. Mobil is authorized to appropriate 1,200 acre feet per annum, which is the equivalent of 25,500 barrels per day.

5. A copy of the proposed Operating Plan which describes the manner in which the unit will be supervised and managed and the method by which costs of operation are to be allocated

and paid is attached hereto and made a part hereof and marked Exhibit "3".

6. The unitized management operation and further development of the portion of the pool, which is the subject of this Application, is reasonably necessary in order to effectively carry on pressure maintenance, and to substantially increase the ultimate recovery of oil from the unitized portion of the pool.

7. The proposed method of unitized operation is feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil from the unitized portion of the pool than would otherwise be recovered.

8. The estimated additional costs of conducting proposed unitized operations will not exceed the estimated value of the additional oil so recovered, plus a reasonable profit.

9. The unitization under the proposed method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the portion of the pool directly affected. Mobil's working interest ownership equals 50.05455 percent participation in the proposed unit.

Amend → Mobil's interest is actually 52.06455 Phase I 52.32657 Phase II

10. Mobil has made a good faith effort to secure and has obtained voluntary unitization of the unit area, except to the extent of the ownership of ELK Oil Company in Tract No. 7, as set forth in Exhibit "B" to Exhibit "2" (Unit Agreement) attached hereto. Mobil anticipates that 100% sign up may be obtained prior to the hearing of this Application.

11. The participation formula contained in the Unit Agreement (Exhibit "2" hereto) allocates the produced and saved unitized hydrocarbons to the separately owned tracts

in the unit area on a fair, reasonable and equitable basis.

12. A diagrammatic sketch of the proposed injection wells showing pertinent information required by Conservation Division Rule 701 will be furnished as a part of the record at the time of hearing.

13. This Application is filed pursuant to the provisions of Sec. 65-14-1, et seq. (Statutory Unitization Act) of New Mexico Statutes, 1953 Annotated.

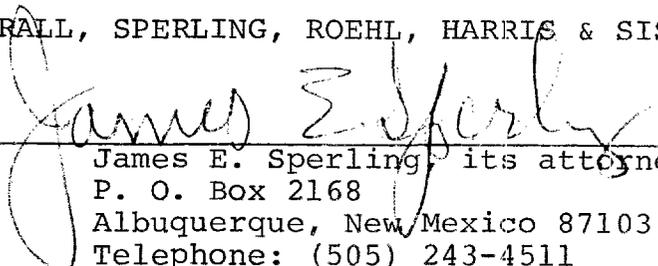
14. Mobil respectfully requests that this matter be set for hearing before an Examiner on June 7, 1978.

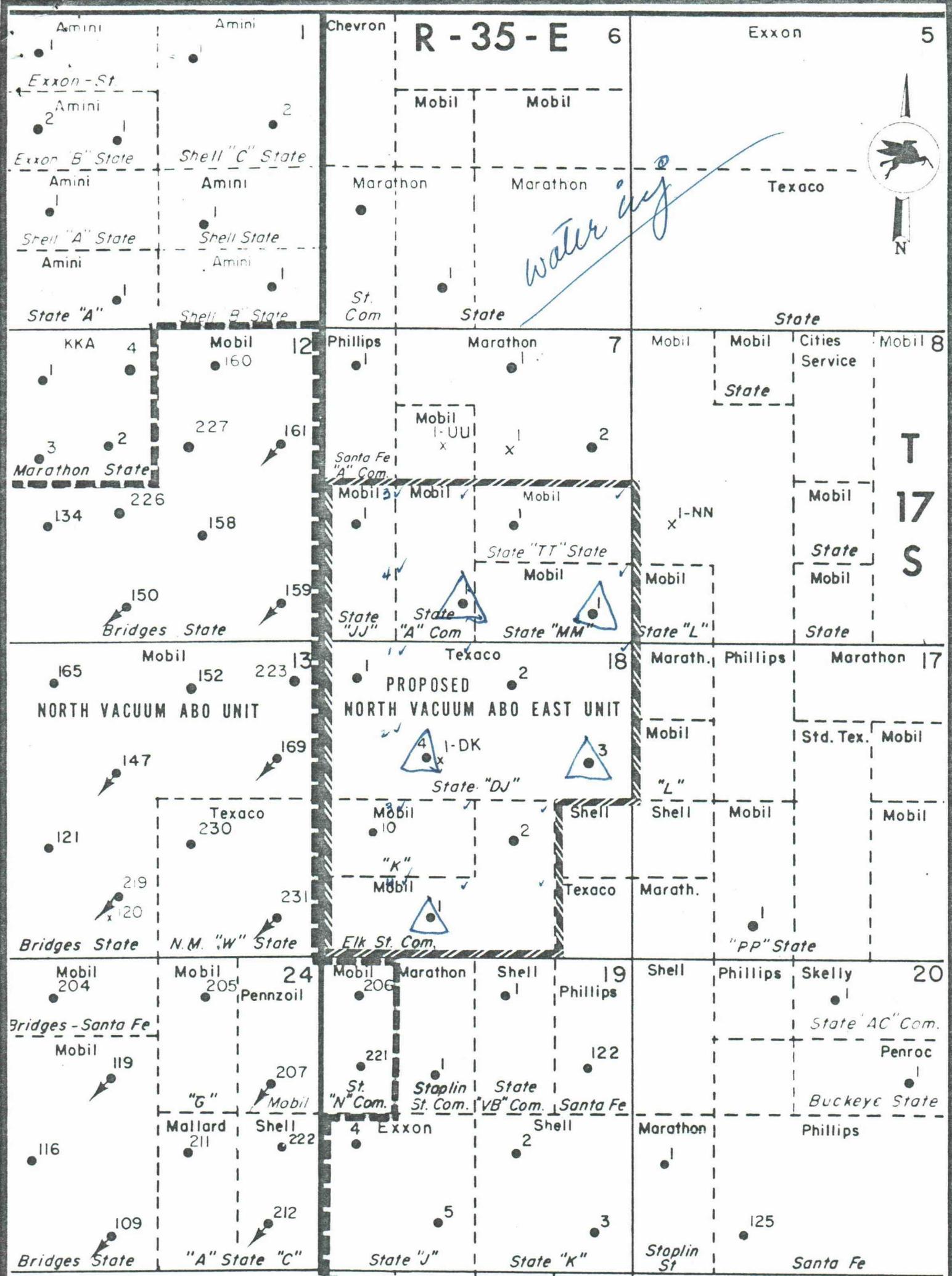
WHEREFORE, Mobil requests that the Oil Conservation Division enter its order authorizing and approving the creation of the North Vacuum Abo East Unit in accordance with the Unit Agreement and Unit Operating Agreement attached to this Application.

Respectfully submitted,

MOBIL OIL CORPORATION

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P. O. Box 2168
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water way



T
17
S

LEGEND

- ABO PRODUCER
- × ABO PENETRATION
- ABO LOCATION
- ⊕ DRY HOLE
- ▬ UNIT BOUNDARY
- INJECTION WELL
- ① TRACT NUMBERS

MOBIL OIL CORPORATION

Exhibit No. /
Case No. /

Mobil Oil Corporation
Houston E&P Division

PROPOSED
NORTH VACUUM ABO EAST UNIT

Scale 1" = 2000'
Date 4-78
Drawn MTT
Checked
Approved
Revised

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTH VACUUM ABO EAST UNIT
COUNTY OF LEA
STATE OF NEW MEXICO

MOBIL OIL CORPORATION

Exhibit No. 2

Case No. _____

Date _____

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OF THE
NORTH VACUUM ABO EAST UNIT
COUNTY OF LEA
STATE OF NEW MEXICO

THIS AGREEMENT entered into as of the first day of October, 1977, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil and gas interests in the Unit Area subject to this agreement and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Volume 2, Chapter 7, Article 11, New Mexico Statutes, 1953 Annotated) to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

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

WHEREAS, the parties hereto hold sufficient interest in the North Vacuum Abo East Unit Area covering land hereinafter described to give reasonably effective control of operations therein; and

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

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

1. ENABLING ACT AND REGULATIONS. The oil and gas operating regulations in effect as of the effective date hereto 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.

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

(a) "Commission" means the Oil Conservation Commission of the State of New Mexico.

(b) "Commissioner" means the Commissioner of Public Lands of the State of New Mexico.

(c) "Royalty Interest" or "Royalty" means an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profits contract, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(d) "Royalty Owner" means the owner of a Royalty Interest.

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

(f) "Tract Participation" means the percentage of Unitized Substances allocated to a Tract under this agreement as shown in Exhibit B.

(g) "Unit Area" means the land shown on Exhibit A, and described by Tracts in Exhibit B, encompassing 865.74 acres, more or less.

(h) "Unit Operating Agreement" means any agreement or agreements, whether one or more, entered into either separately or collectively by and between the Unit Operator and the Working Interest Owners, as provided in Section 9, ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT, and shall be styled "Unit Operating Agreement for the Development and Operation of the North Vacuum Abo East Unit, County of Lea, State of New Mexico."

(i) "Unit Participation" of a Working Interest Owner is the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

(j) "Unitized Formation" means the Abo formation identified between the depths of 8420 feet (minus 4385 feet sub-sea) and 9260 feet (minus 5225 feet sub-sea) on the Schlumberger Dual Induction Laterolog, run on June 7, 1974 in Mobil State "UU" Com. Well #1, located 1980' FNL and 1980' FWL, Section 7, T-17-S, R-35-E, Lea County, New Mexico, and is to include all subsurface points throughout the unit area correlative to those identified depths.

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

(l) "Working Interest" means the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease or otherwise.

(m) "Working Interest Owner" means any party thereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and the operation thereof hereunder. The owner of oil and gas rights which are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

(n) "Voting Interest" means each Working Interest Owner shall have a voting interest equal to its then Unit Participation.

(o) "Oil and Gas Rights" are the rights to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

(p) "Unit Operations" are all operations conducted pursuant to this agreement and the Unit Operating Agreement.

(q) "Unit Equipment" is 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.

(r) "Unit Expense" is all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of Unit Operations.

3. EXHIBITS. The following exhibits, which are attached hereto, are incorporated herein by reference:

EXHIBIT A: is a map that illustrates the boundary lines of the Unit Area and the Tracts therein.

EXHIBIT B: is a schedule that describes each Tract in the Unit Area and sets forth the percentage of participation for each Tract.

Said Schedule shall become effective at 7:00 a.m. on the effective date of this agreement.

It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than correction of mathematical or clerical error shall be made by Unit Operator only after first having obtained approval of Working Interest Owners and the Commissioner. The correction of any error shall not include any re-evaluation of engineering or geological interpretations used in determining "Tract Participation."

Exhibits A and B shall be revised by Unit Operator whenever changes render such revision necessary, and at least two copies of such revision shall be filed with the Commissioner.

4. EXPANSION OF UNIT AREA. The above described Unit Area may, when practicable, be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, whenever such expansion is necessary or advisable to conform with the purposes of this agreement. Tract Participations resulting from such expansion shall be on a negotiated basis and, after agreement between the affected parties has been reached, such expansion shall be effected in the following manner:

(a) Unit Operator, with concurrence of two or more working interest owners all of whom have at least a combined seventy-five percent (75%) of the then Voting Interest and after preliminary concurrence by the Commissioner and the Commission, shall prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Commissioner and the Commission, and copies thereof mailed to the last known address of each Working Interest Owner, lessee, and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Commissioner and the Commission evidence of mailing of the notice of expansion and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number for approval of such expansion and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion shall, upon approval by the Commissioner and the Commission; become effective as of the date prescribed in the notice thereof.

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

5. UNITIZED LAND AND UNITIZED SUBSTANCES. All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid and liquefiable hydrocarbons in the lands committed to this agreement are, as to the Abo Formation, unitized under the terms of this agreement (and are herein called Unitized Substances) and said lands shall constitute lands referred to herein as "unitized land" or "land subject to this agreement."

6. UNIT OPERATOR. MOBIL OIL CORPORATION is hereby designated as the Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties of Unit Operator for the 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 interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such interest is owned by it.

7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after notice of intention to resign has been served by Unit Operator on all Working Interest Owners and the commissioner and the Commission, and until all wells then drilled hereunder are placed in satisfactory condition for suspension or abandonment, whichever is required by the Commission as to State lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The Unit Operator may upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by affirmative vote of Working Interest Owners having ninety percent (90%) or more of the Voting Interest remaining after excluding the voting interest of the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

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

upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the Unit operations owned by the Working Interest Owners to the new duly qualified successor Unit Operator, or to the owner thereof if no such new Unit Operator is elected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, the Working Interest Owners shall, by affirmative vote of at least sixtyfive percent (65%) of the then Voting Interest, select a successor Unit Operator; provided, however, that if the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of at least fiftyone percent (51%) of the Voting Interest remaining after excluding the voting interest of the Unit Operator that resigned or was removed. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner may, at his election, declare this Unit Agreement terminated.

9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. All cost and expenses incurred by Unit Operator in conducting Unit operations hereunder shall be apportioned among, borne and paid by the Working Interest Owners, all in accordance with this agreement and the Unit Operating Agreement. The Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing 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 they may agree upon. However, the Unit Operating Agreement shall not be deemed to modify the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement; in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of the Unit Operating Agreement shall be filed with the Commissioner.

10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto (including surface rights) which are necessary or convenient for the prospecting for, producing, storing, allocating, and distributing the Unitized Substances, are hereby granted and delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land, lease, Royalty Interest, operating agreement or communitization 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.

11. 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 Unit Area as now or hereafter constituted. Therefore, for all purposes of this agreement any and all 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 and all such equipment and personal property shall be and remain personal property for all purposes.

12. PLAN OF FURTHER DEVELOPMENT AND OPERATION. It is recognized and agreed by the parties hereto that the object and purpose of this agreement is to formulate and to put into effect an additional recovery project in order to effect the optimum recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Commissioner and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, or any other substance or a combination of any of said substances, whether produced from the Unitized formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. This agreement is and shall be subject to the conservation laws of the State of New Mexico, to the valid rules, regulations and orders of the Commissioner and the Commission and to all other applicable federal, state and municipal laws, rules, regulations and orders. The parties hereto, subject to prior rights, if any, grant to Unit Operator the use of brine or water or both from any formation in and under the Unit Area for injection into the Unitized Formation. After commencement of additional recovery operations, Unit Operator shall furnish the Commissioner monthly injection and production reports for each well in the Unit Area. The Working Interest owners and the Commissioner shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and the Commission.

13. PARTICIPATION. The Tract Participations shown on Exhibit B attached hereto is divided into two periods and shall govern the allocation of Unitized Substances on and after the effective date of this Unit Agreement and until the allocation schedule is revised pursuant to this agreement and the revised Tract Participations are approved by the Commissioner and the Commission.

The Tract Participations of each tract in the Unit Area, as shown on Exhibit A and described in Exhibit B have been calculated and determined in accordance with the following formulas using data heretofore approved by the Working Interest Owners.

1. Phase I Participation which shall be applicable from the effective date hereof until 7:00 a.m. on the first day of the calendar month next following the month in which the total quantity of oil produced from and after November 1, 1976, from the Unitized Formation equals 361,321 barrels of oil.
2. Phase II Participation which shall be applicable from and after the date on which Phase I Participation ends until termination of this Agreement.

The Tract Participation for each Tract as shown in Exhibit A has been computed for the applicable period on the basis of the following formula:

$$\begin{aligned} \text{Phase I} &= 50\% \times \frac{\text{Tract Current Oil Rate}}{\text{Unit Area Current Oil Rate}} && \text{plus} \\ &50\% \times \frac{\text{Tract Remaining Primary}}{\text{Unit Area Remaining Primary}} \\ \text{Phase II} &= 100\% \times \frac{\text{Tract Primary Ultimate}}{\text{Unit Area Primary Ultimate}} \end{aligned}$$

As used in this Article 13, the terms as hereinabove set forth shall have the following meaning:

- (a) Tract Current Oil Rate means the number of barrels of oil produced from the Unitized Formation from such Tract during the period commencing May 1, 1976, and ending October 31, 1976, and as such number of barrels of oil is agreed upon by the Working Interest Owners.
- (b) Unit Area Current Oil Rate means the summation of the Tract Current Oil Rate of those Tracts effectively committed to this agreement.
- (c) Tract Remaining Primary means the number of barrels of primary oil reserves remaining from such Tract as of November 1, 1976.
- (d) Unit Area Remaining Primary means the summation of the Tract Remaining Primary of all Tracts effectively committed to this agreement.
- (e) Tract Primary Ultimate means the total cumulative amount of oil produced from the Unitized Formation from such Tract up to but not including November 1, 1976, plus the Tract's remaining primary reserves of oil as of November 1, 1976.
- (f) Unit Primary Ultimate means the summation of the Tract Primary Ultimate of those Tracts effectively committed to this agreement.

14. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the committed Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit B. The amount of Unitized Substances so allocated to each committed 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 such Tract shall be distributed among, or accounted for to, the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal effect. It is hereby agreed that production of Unitized Substances from any such committed Tract shall be allocated as provided herein regardless of whether oil or gas is being produced from any particular Tract committed hereto. If the Working Interests or the Royalty Interests in any Tract are divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participation of such Tract shall, in the absence of a recordable instrument among all owners fixing the division of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

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

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

15. BALANCING OF PRODUCTION. Unit Operator shall make a proper and timely gauge of all lease and other tanks located on each committed Tract 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 Unitized Substances which are a part of the prior allowable of the well or wells from which the same were produced shall be and remain the property of the Working Interest Owners entitled thereto as if the Unit had not been formed and such Working Interest Owners shall promptly remove same. Any such Unitized Substances 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 Unitized Substances which are in excess of the prior allowable of the well or wells from which the same were 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 over-produced with respect to the allowable of the well or wells on that Tract and the amount of such over-production has been sold or otherwise disposed of, such over-production 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.

Rights therein or by purchase from such owners. Such parties shall have the right to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of Unitized Substances shall be borne by the owner of such portion. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of Unitized Substances.

17. FAILURE TO TAKE IN KIND. If any party fails to take in kind or separately dispose of such party's share of Unitized Substances, Unit Operator shall have the right, but not the obligation, for the time being and subject to revocation at will by the party owning the share, to purchase or sell to others such share; however, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owners of each affected Tract or a party designated by such Working Interest Owners who shall distribute such proceeds to the parties entitled thereto. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days' notice of such intended sale.

18. CERTIFICATION OF UNIT PRODUCTION. It is anticipated, at the effective date of unitization, crude oil produced, saved and sold from the North Vacuum Abo East Unit will be subject to the Energy Policy and Conservation Act (Public Law 94163) as well as rules and regulations of the Federal Energy Administration. Such rules provide for the classification of crude oil for pricing purposes as (1) stripper well crude oil, (2) old oil and (3) upper tier crude oil. It is further anticipated that the Unit Operator will in compliance with applicable FEA regulations, prepare a unitwide certification covering monthly crude oil production from the unit in which event it will be necessary for the unit operator to implement a method for the allocation of the unit certification among the unit ownership. It is the intention of the parties to this Agreement that each unit participant shall retain the regulatory benefits attributable to the tracts which such participant has committed to the unit to the extent that the Unit is legally permitted to retain such benefits.

Under the rules and regulations of the Federal Energy Administration as of October 1, 1976, a unit certification is allowed each month to include in the Upper Tier Crude Oil portion thereof, a constant number of barrels described by FEA Regulations as Imputed Upper Tier Crude Oil. The unit certification is further allowed each month to include in the Stripper Well Crude Oil portion thereof, a constant number of barrels described by FEA Regulations as Imputed Stripper Well Crude Oil.

In view of the above, and notwithstanding the provisions of Article 14, crude oil produced, saved and sold shall be allocated as follows:

1. Stripper Well Crude Oil - The first oil produced, saved and sold each month up to a quantity equal to the Unit's Imputed Stripper Well Crude Oil shall be allocated to Tracts contributing Imputed Stripper Well Crude Oil to the Unit Certification in proportion to their contributions of such Imputed Stripper Well Crude Oil. Should any Tract in any month be allocated, out of Unit production in accordance with its Tract Participation as set forth in this Agreement, a total number of barrels of oil that is less than the Imputed Stripper Well Crude Oil that such Tract has contributed to the Unit Certification, then such Tract's allocation of Imputed Stripper Well Crude Oil shall be reduced by the amount that the Imputed Stripper Crude Oil exceeds the amount of oil to be allocated in accordance with its Tract Participation. The amount in excess of its Tract Participation shall be termed Excess Imputed Stripper Well Crude Oil. The total Excess Imputed Stripper Well Crude Oil of all Tracts shall be allocated to all Tracts, including Tracts which have not contributed Imputed Stripper Well Crude Oil to the Unit certification, in proportion to the quantities that the Unit production allocated a Tract by its Tract Participation exceeds the quantity of Imputed Stripper Well Crude Oil allocated such tract.
2. Imputed Upper Tier Crude Oil - Oil produced, saved, and sold each month from the Unit after a quantity of oil equal to the Imputed Stripper Well Crude Oil is produced, saved and sold, up to a quantity equal to the Imputed Upper Tier Crude Oil, shall be allocated to those Tracts contributing Imputed Upper Tier Crude Oil to the Unit Certification in proportion to their contributions of such Imputed Upper Tier Crude Oil. Should any Tract in any month be allocated out of Unit production in accordance with its Tract Participation, as set forth in this agreement, a total number of barrels that is less than the sum of its Imputed Stripper Well Crude Oil, its Excess Imputed Stripper Well Crude Oil as provided in Paragraph 1 of this Article, and its allocated Imputed Upper Tier Crude Oil, then such Tract's allocation of Imputed Upper Tier Crude Oil shall be reduced by the quantity that the sum of the Tract's Imputed Stripper Well Crude Oil, its Excess Imputed Stripper Crude Oil and its allocated Imputed Upper Tier Crude Oil exceeds the total quantity of oil to be allocated in accordance with its Tract Participation. The amount in excess of its Tract Participation shall be termed Excess Imputed Upper Tier Crude Oil. The total Excess Imputed Upper Tier Crude Oil of all Tracts shall be allocated to all Tracts including Tracts which have not contributed Imputed Stripper Well Crude Oil and/or Imputed Upper Tier Crude Oil to the Unit Certification, in proportion to the quantities that each Tract's allocation of Unit production by its Tract Participation exceeds the sum of the Imputed Stripper Well Crude, Excess Imputed Stripper Well Crude Oil and Imputed Upper Tier Crude Oil allocated such Tract.

allocation of unit production, in accordance with its participation, exceeds the sum of the allocated Imputed Stripper Well Crude Oil, Excess Imputed Stripper Well Crude Oil, Imputed Upper Tier Crude Oil and Excess Imputed Upper Tier Crude Oil.

This provision shall remain in effect only so long as necessary for the unit to comply with applicable laws, rules, and regulations of appropriate governmental authorities. Should such laws, rules, and regulations hereafter change substantially so as to alter the basis for a certification of unit production as set forth above, then in such event a method of allocating the certification among the unit ownership shall be implemented by the Unit Operator which as nearly as possible achieves the stated intention hereof. In any event this provision will automatically terminate in its entirety upon the production of 361,321 barrels of oil from the Unit Area after November 1, 1976. This provision is deemed supplementary to the other provisions of this Agreement and the provisions of the Unit Operating Agreement so that nothing contained herein shall alter the terms of such agreements, including but not limited to the portions thereof dealing with tract participation, the allocation of unit production, and the allocation of investment and operating costs.

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

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

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

20. RENTAL SETTLEMENT. Rentals on State of New Mexico lands subject to this agreement shall be paid at the rate specified in the respective leases, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

21. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted so as to provide for the most economical and efficient recovery of such substances to prevent waste as defined by State laws or regulations.

22. DRAINAGE. Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from the committed Tracts by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty.

23. 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, gas gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons in the under lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Commissioner as to State leases shall by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and without limiting the generality of the foregoing, Unit Operations conducted on any part of the Unit Area shall be considered with respect to leases or term mineral or royalty interests as follows:

(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 of or Tract of 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) Production from any part of the Unitized Formation, except for the purpose of determining payments to Royalty Owners, or other Unit Operations shall be considered as production from or operations upon each Tract; and such production or operations shall continue in effect each lease or term mineral or royalty interest as to all lands and formations covered thereby just as if such operations were conducted on and as if a well were producing from each Tract.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioner shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized land.

(d) Any lease embracing lands of the State of New Mexico which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(e) 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 as to such segregated portions commencing as of the Effective Date hereof. Provided, however, that, notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease 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 valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or improved recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein should 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 lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

24. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of 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.

25. EFFECTIVE DATE. This agreement shall become binding upon each party as of the date such party executes or ratifies the instrument by which it becomes a party hereto. This agreement shall become effective as of 7:00 o'clock a.m. of the first day of the calendar month next following approval by the Commissioner. Subsequent to approval of this agreement by the Commission, the Working Interest Owners shall have the sole and exclusive right to determine whether this agreement shall become effective by a vote favoring unitization by Working Interest Owners owning seventy-five percent (75%) or more of the combined Unit Participation. Notwithstanding the accomplishment of the other requirements of this section, this agreement shall terminate on the termination date or extended termination date provided for in Article 26 unless prior to that date Working Interest Owners by the vote herein provided have determined that this agreement should become effective and have established an effective time and date.

There must be filed at least one counterpart of this Agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator.

Unit Operator shall, within thirty (30) days after the effective date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement become effective according to its terms and stating further the effective date.

26. IPSO FACTO TERMINATION. If the requirements of Article 25 are not accomplished on or before July 1, 1978, this agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect, unless prior thereto Working Interest Owners owning a combined Unit Participation of at least Seventy-five percent (75%) have become parties to this agreement and Working Interest Owners owning seventy-five percent (75%) or more of that percent have decided to extend the termination date for a period not to exceed one year. If the termination date is so extended and the requirements of Article 25 are not accomplished on or before the extended termination date, this agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect. For the purpose of this article, Unit Participation shall be as calculated on the basis of Tract Participation shown on the original Exhibit B.

27. TERM. The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and so long thereafter as drilling, reworking, or other operations (including improved recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated with the approval of the Land Commissioner and two or more Working Interest Owners owning seventy-five percent (75%) of the then Unit Participation whenever such Working Interest Owners determine that Unit Operations are no longer profitable, feasible or in the interest of conservation. Notice of any such termination shall be given by Unit Operator to all parties hereto.

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

If not otherwise covered by the leases unitized under this agreement each Royalty Owner hereby grants Working Interest Owners a period of six 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.

Upon termination of this agreement, Unit Operator shall file for record in the office of the County Clerk of Lea County, New Mexico, a certificate to the effect that this agreement has terminated and declaring therein the termination date.

28. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for or on behalf of any and all interest affected hereby before the Commission and to appeal from orders issued under the regulations of said Commission or to apply for relief from any of said regulations or in any proceedings relative to operations before the Commission, or 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.

29. 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, or sent by mail or telegram, to the 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 may have furnished in writing to the party sending the notice, demand or statement.

30. NO WAIVER OF CERTAIN RIGHTS. Nothing contained in this agreement shall be construed as a waiver by a party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State of New Mexico, or 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.

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

32. TITLE. Each Party who, by acceptance of produced Unitized Substances or the proceeds thereof, may claim to own a Working Interest or Royalty Interest in and to any Tract or in the Unitized Substances allocated thereto, shall be deemed to have warranted its title to such interest, and, upon receipt of the Unitized Substances or the proceeds thereof to the credit of such interest, shall indemnify and hold harmless all other Parties in Interest from any loss due to failure, in whole or in part, of its title to any such interest.

If the title or right of any Party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the direction of Working Interest Owners shall either:

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

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the Party rightfully entitled thereto, provided, that as to State land or leases, no payments of funds due the State of New Mexico shall be withheld, such funds of the State shall be deposited as directed by the Commissioner, all 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 dispute of title hereunder.

Any conveyance of all or any part of any interest owned by a Party with respect to any Tract shall be subject to this Agreement. No change of title shall be binding upon Unit Operator, or upon any Party other than the Party so transferring until 7:00 a.m. on the first day of the calendar month next succeeding the date of receipt by Unit Operator of a photocopy or a certified copy of the recorded instrument evidencing such change in ownership.

33. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or it may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such 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.

34. TAXES. The Working Interest Owners shall render and pay for their account and the account of the Royalty Owners all valid taxes on or measured by the Unitized Substances in and under or that may be produced, gathered and sold from the land subject to this agreement after the effective date of this agreement, or upon the proceeds or net proceeds derived therefrom. The Working Interest Owners in each tract may charge the proper proportion of said taxes to the Royalty Owners having interests in said Tract, and may currently retain and deduct sufficient of the Unitized Substances or derivative products, or net proceeds thereof, from the allocated share of each royalty Owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

In order to avoid title failures which might incidentally cause the title to a Working Interest or Royalty Interest to fail, the owners of (1) the surface rights to each committed Tract, (2) severed mineral or royalty interest in said Tracts and improvements located on said Tracts not utilized for Unit Operations shall individually be responsible for the rendition and assessment, for ad valorem tax purposes, of all such property, and for the payment of such taxes, except as otherwise provided in any contract or agreement between such owners and a Working Interest Owner or Owners. If any ad valorem taxes are not paid by such owner responsible therefor when due, Unit Operator may, at any time prior to tax sale, pay the same, redeem such property and discharge such tax liens as may arise through nonpayment. In the event Unit Operator makes any such payment or redeems any such property from tax sale, Unit Operator shall be reimbursed therefor by the Working Interest Owners in proportion to their respective Unit Participations then in effect, and Unit Operator shall withhold from any proceeds derived from the sale of Unitized Substances otherwise due to said delinquent taxpayer or taxpayers an amount sufficient to defray the costs of such payment or redemption, such withholding to be distributed among the Working Interest Owners in proportion to their respective contributions toward such payment or redemption. Such withholding shall be without prejudice to any other remedy, either at law or in equity, which may be available for exercise by the Unit Operator or by the Working Interest Owners.

35. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners or any of them shall be subject to any forfeiture, termination, or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator, Working Interest Owners, or any of them are hindered, delayed or prevented from complying therewith by reason of the failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject, in any case, to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

36. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, express or implied, or any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

provide, and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale, or marketing of Unitized Substances.

38. BORDER AGREEMENTS. Subject to the approval of the Commissioner, the Unit Operator with Working Interest Owners' approval in accordance with the voting procedure in Article 4.3.2 of the Unit Operating Agreement, may enter into a borderprotection agreement or agreements with the Working Interest Owners of lands adjacent to the committed Tracts with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and property protection of the parties and interest.

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

Three Greenway Plaza East
Houston, Texas 77046

MOBIL OIL CORPORATION
UNIT OPERATOR AND WORKING INTEREST OWNER

By: P. E. Harrison
Attorney-in-Fact

Date: 11-21-77.

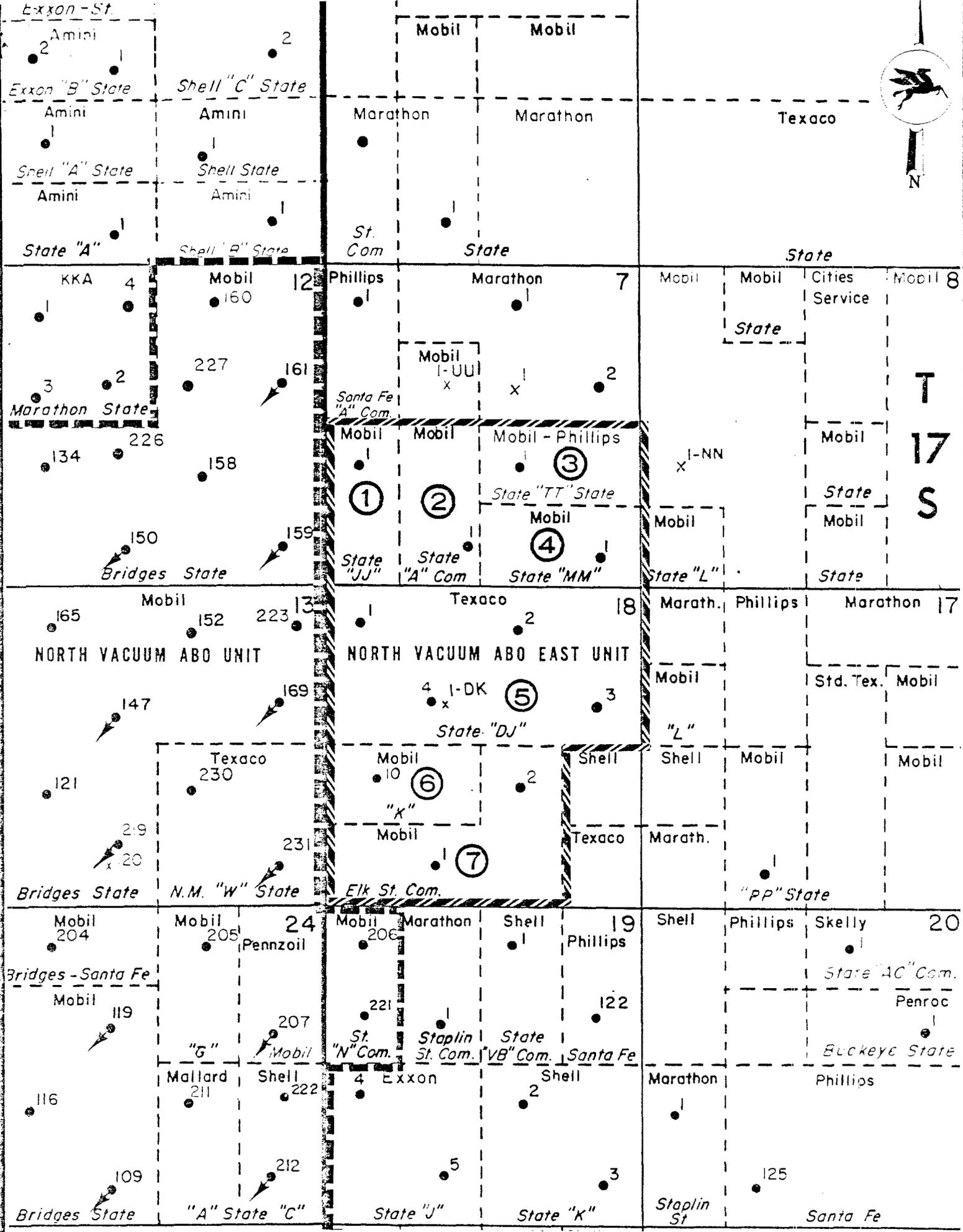
THE STATE OF TEXAS |
 |
COUNTY OF HARRIS |

The foregoing instrument was acknowledged before me this 21st day of November, 1977, by P. E. Harrison, Attorney-in-Fact for MOBIL OIL CORPORATION, a New York Corporation, on behalf of said corporation.

Katie W. Blankenship
Notary Public in and for
Harris County, Texas

KATIE W. BLANKENSHIP
Notary Public in and for Harris County, Texas
My Commission Expires 6-2-78

My Commission Expires:



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17
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LEGEND

- ABO PRODUCER
- X ABO PENETRATION
- ABO LOCATION
- ⊗ DRY HOLE
- UNIT BOUNDARY
- ⚡ INJECTION WELL
- ① TRACT NUMBERS

Mobil Oil Corporation
Houston E&P Division

EXHIBIT "A"
TO UNIT AGREEMENT
NORTH VACUUM ABO EAST UNIT
Lea County, New Mexico

Scale 1" = 2000'

Date 6-9-77
Drawn ECM
Checked *[Signature]*
Approved *[Signature]*
Revised 4-24-78

EXHIBIT "B"
TO UNIT AGREEMENT
NORTH VACUUM ABO EAST UNIT
LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER	% WORKING INTEREST IN TRACT	PERCENT UNIT PARTI	
									Phase I	Pha
1	State "JJ" T-17-S, R-35-E, Sec. 7, Lots 3 & 4	75.18	B-1527	State of New Mexico 12.5%	Mobil Oil Corporation	None	Mobil Oil Corporation	100.0000	10.83062	10.
2	State "A" Com. T-17-S, R-35-E, Sec. 7, NE/4 SW/4 SE/4 SW/4	80	B-1518 B-1527	State of New Mexico 12.5%	Mobil Oil Corporation	None	Mobil Oil Corporation	100.0000	7.61928	9.
3	State "TT" com. T-17-S, R-35-E, Sec. 7, NW/4 SE/4 SE/4	80	B-1518 B-1606	State of New Mexico 12.5%	Mobil Oil Corporation Phillips Petroleum Company	None	Mobil Oil Corporation Phillips Petroleum Company	50.0000 50.0000	6.98217 6.98217	5. 5.
4.	State "MM" T-17-S, R-35E, Sec. 7, S/2 SE/4	80	L-5391	State of New Mexico 12.5%	Mobil Oil Corporation	None	Mobil Oil Corporation	100.0000	12.59854	14.1

EXHIBIT "B"
TO UNIT AGREEMENT
NORTH VACUUM ABO EAST UNIT
LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER	% WORKING INTEREST IN TRACT	PERCENT UNIT PARTICIPATION	
									Phase I	Phase II
5	State "DJ" T-17-S, R-35-E, Sec. 18, NE/4, E/2 NW/4, Lots 1 & 2	315.26	B-161-2	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc.	100.0000	35.97829	37.36990
6	State "K" T-17-S, R-35-E, Sec. 18, Lots 3 & NE/4 SW/4	77.64	B-1527	State of New Mexico 12.5%	Mobil Oil Corporation	None	Mobil Oil Corporation	100.0000	9.18474	7.84194
7	ELK State com. T-17-S, R-35-E, Sec. 18, Lot 4, SW/4 SE/4 Sec. 18, SE/4 SW/4 & NW/4 SE/4	157.66	B-1518 K-6023-1	State of New Mexico 12.5%	Mobil Oil Corporation Elk Oil Company	None John M. Kelly, Estate 7.5%	Mobil Oil Corporation Elk Oil Company	49.2580 50.7420	4.83920 4.98499	4.45040 4.58447
		865.74						100.0000	9.82419	9.03487
								100.0000		100.00000

UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTH VACUUM ABO EAST UNIT
COUNTY OF LEA
STATE OF NEW MEXICO

MOBIL OIL CORPORATION

Exhibit No. _____

3

Case No. _____

Date _____

UNIT OPERATING AGREEMENT
 NORTH VACUUM ABO EAST UNIT
 LEA COUNTY, NEW MEXICO

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Exhibit C. . Working Interest Ownership by Tracts and Attributable Unit Participations
Exhibit D. . Accounting Procedure

THIS AGREEMENT, entered into as of the 1st day of October, 1977, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H:

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

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement.

2.1.2 Exhibit C attached hereto, which is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the percentage of total Unit Participation attributable to each such interest and the total Unit Participation of each Working Interest Owner. Exhibit C or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of the Working Interest Owners for purposes of this agreement until shown to be in error or is revised as herein authorized.

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

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

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

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

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

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

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

3.2.4 Expenditures. The making of any single expenditure in excess of Twenty Thousand Dollars (\$20,000.00); provided that approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment if the current list price of new equipment similar thereto is more than Five Thousand Dollars (\$5,000.00).

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

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

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

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

3.2.10 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 the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than 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 the 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 otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of two or more Working Interest Owners having a combined voting interest of at least sixty-five percent (65%); however, should any one Working Interest Owner have more than thirty-five percent (35%) voting interest, its negative vote or failure to vote shall not defeat a motion, such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless one or more Working Interest Owners having a combined voting interest of at least five percent (5%) likewise vote against the motion or fail to vote.

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

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

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

ARTICLE 6

UNIT OPERATOR

6.1 Initial Unit Operator. Mobil Oil Corporation is hereby designated as initial 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, Leases and Unit Equipment in the Unit Area free from all liens and encumbrances occasioned by Unit Operations except the lien of Unit Operator granted hereunder.

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

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

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

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty Thousand Dollars (\$20,000.00) 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 under terms and conditions approved by Working Interest Owners.

7.11 Border Agreements. Unit Operator may, after approval by Working Interest Owners, enter into border agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

ARTICLE 8

TAXES

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

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

ARTICLE 9

INSURANCE

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

9.1.1 Carry Workmen's Compensation Insurance in compliance with the Workmen's Compensation Law of the State of New Mexico.

9.1.2 Carry Employer's Liability and other insurance as 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. Unit Operator shall furnish non-operators written notice of damages or losses incurred as soon as practical after a report thereof has been received by Unit Operator.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells. 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 at Unit Expense inventory and evaluate, as determined by Working Interest Owners, the personal property taken over. Such inventory shall include and be limited to those items of equipment considered controllable under Exhibit D except, upon determination of Working Interest Owners, items considered non-controllable may be included in the inventory in order to insure a more equitable adjustment of investment. Casing shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment. Immediately following the completion of such inventory, the material and equipment taken over under Section 10.1.2 shall be priced at a realistic 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, investments shall be adjusted as follows:

10.3.1 Initial Adjustment of Investments. Each Working Interest Owner shall be credited with the value, as determined in accordance with Section 10.2 above, of its interest in all personal property taken over by Unit Operator under Section 10.1.2, and charged with an amount equal to that obtained by multiplying the total value of all such personal property taken over by Unit Operator under Section 10.1.2 by such Working Interest Owner's Phase II Unit Participation, as shown in Exhibit C. 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 paid and in all other respects be treated as any other 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

WELL BORES

11.1 Well Bores. As of the Effective Date of the Unit Agreement each eighty acre subdivision of any tract committed hereto shall be required to have a well bore which is completed in the Unitized Formation. If any 80 acre subdivision does not have a well bore as above provided, the party or parties contributing same shall have the option for 60 days to provide a well bore. If a well bore has not been provided at the end of said 60 day period, the party or parties contributing an 80 acre subdivision without a well shall remit the sum of \$260,000 to the Unit Operator for the Unit account.

11.2 Condition of Wells. All wells delivered to the Unit Operator shall be completed in the Unitized Formation and be in a reasonably good physical condition to produce Unitized Substances on the effective date hereof. If within 180 days after the effective date any such well is determined by the Working Interest Owners not to have been in a reasonably good physical condition when taken over, including but not limited to defective casing or junk in the well, the Working Interest Owner who contributed such well shall be liable to the other Working Interest Owners for liquidated damages in an amount, measured by the cost to Working Interest Owners of repairing such unit well, not to exceed Fifty Thousand Dollars (\$50,000); provided that any amount in excess of Fifty Thousand Dollars (\$50,000) shall be treated as any other item of Unit Expense and charged to the joint account.

ARTICLE 12

UNIT EXPENSES

12.1 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 D. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense as follows:

12.1.1 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; except for the purpose of this agreement, cost for the purchase of outside substances injected into the Unitized Formation shall be shared and borne by the Working Interest Owners in accordance with their Phase II Unit Participation.

12.1.2 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.

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

12.3 Advance Billing. 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 thereof, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month and the accounts of Working Interest Owners shall be adjusted accordingly.

12.4 Commingling of Funds. Funds received by Unit Operator under this agreement need not be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

12.5 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 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, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by 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. Unit Operator hereby grants a like lien to Working Interest Owners.

12.6 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 or credited to the account of the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

12.7 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 12.5 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 19 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 12.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

ARTICLE 13

NONUNITIZED FORMATIONS

13.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for the 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 Owner other than Unit Operator 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.

13.2 Multiple Completions. No well now or hereafter completed in the Unitized Formation within the Unit Area or any enlargement thereof shall ever be completed as a multiple completion with the Unitized Formation and any other formation unless such multiple completion and the subsequent handling of the multiple completion is approved by Working Interest Owners in accordance with the voting procedures as set out in Article 4.3.2 of this agreement.

ARTICLE 14

TITLES

14.1 Representation and Indemnity. Each Working Interest Owner represents that it is the owner of the respective Working Interests set forth opposite its name in Exhibit C, 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 any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability arising therefrom 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 a title failure.

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

ARTICLE 15

LIABILITY, CLAIMS, AND SUITS

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

15.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Five Thousand dollars (\$5,000.00) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 16

INTERNAL REVENUE PROVISION

16.1 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 hereby 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 said Code and the regulation promulgated thereunder. 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 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 notice 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 property covered by this agreement is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A or the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election, each of the parties hereto hereby states that the income derived by him from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 17

NONDISCRIMINATION

17.1 Nondiscrimination. During the performance of work under this agreement, Unit Operator agrees to comply with all the provisions of subsections (1) through (7) of Section 202, Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, and as subsequently amended, which are hereby incorporated by reference in this agreement.

ARTICLE 18

NOTICES

18.1 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 19

WITHDRAWAL OF WORKING INTEREST OWNER

19.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all its Oil and Gas Rights, exclusive of Royalty Interest, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay transferor for its interest in Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

19.2 Limitation on Withdrawal. Notwithstanding anything set forth in Section 19.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

ABANDONMENT OF WELLS

20.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the equipment in and on the well up to and including the wellhead. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

ARTICLE 21

EFFECTIVE DATE AND TERM

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

21.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect and thereafter until (a) all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 19, (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 22

ABANDONMENT OF OPERATIONS

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

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

22.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the equipment up to and including the well head in and on any wells taken over, as determined by Working Interest Owners, and by agreeing to plug properly each well in compliance with applicable laws and regulations at such times as it is abandoned.

the casing and equipment in or on wells not reacquired 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.

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

22.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participation.

ARTICLE 23

EXECUTION

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

ARTICLE 24

SUCCESSORS AND ASSIGNS

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

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

WORKING INTEREST OWNERS

MOBIL OIL CORPORATION

By _____
Attorney-in-Fact

THE STATE OF TEXAS |
 |
COUNTY OF HARRIS |

The foregoing instrument was acknowledged before me this _____ day of _____, 1977, by _____, Attorney-in-Fact for MOBIL OIL CORPORATION, a New York corporation, on behalf of said MOBIL OIL CORPORATION.

My commission expires:

Notary Public in and for
Harris County, Texas

EXHIBIT "C"
 TO UNIT OPERATING AGREEMENT
 NORTH VACUUM ABO EAST UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	WORKING INTEREST OWNER	WORKING INTEREST IN TRACT - %	PERCENT UNIT PARTICIPATION	
			Phase I	Phase II
1	Mobil Oil Corporation	100.0000	10.83062	10.51392
2	Mobil Oil Corporation	100.0000	7.61928	9.29561
3	Mobil Oil Corporation Phillips Petroleum Company	50.0000	6.98217	5.71906
		50.0000	6.98217	5.71906
		<u>100.0000</u>	<u>13.96434</u>	<u>11.43812</u>
4	Mobil Oil Corporation	100.0000	12.59854	14.50564
5	Texaco Inc.	100.0000	35.97829	37.36990
6	Mobil Oil Corporation	100.0000	9.18474	7.84194
7	Mobil Oil Corporation Elk Oil Company	49.2580	4.83920	4.45040
		50.742	4.98499	4.58447
		<u>100.0000</u>	<u>9.82419</u>	<u>9.03487</u>
			<u>100.00000</u>	<u>100.00000</u>

EXHIBIT "C" SUMMARY
 TO UNIT OPERATING AGREEMENT
 NORTH VACUUM ABO EAST UNIT
 LEA COUNTY, NEW MEXICO

<u>WORKING INTEREST OWNER</u>	<u>TRACT NUMBER</u>	<u>PERCENT UNIT PARTICIPATION</u>	
		<u>Phase I</u>	<u>Phase II</u>
Elk Oil Company	7	4.98499	4.58447
Mobil Oil Corporation	1	10.83062	10.51392
	2	7.61928	9.29561
	3	6.98217	5.71906
	4	12.59854	14.50564
	6	9.18474	7.84194
	7	4.83920	4.45040
			<u>52.05455</u>
Phillips Petroleum Company	3	6.98217	5.71906
Texaco Inc.	5	<u>35.97829</u>	<u>37.36990</u>
		100.00000	100.00000

Attached to and made a part of Unit Operating Agreement
 North Vacuum ABO East Unit
 Lea County, New Mexico

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

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

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

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

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

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Opera-

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

2. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries and related expenses of First Level Supervisors in the Field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

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

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessor'al charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- () Fixed Rate Basis, Paragraph 1A, or
- () Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not () be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 1,530.00

Producing Well Rate \$ 153.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the 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 suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April 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 calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

- A. 5 % of total costs if such costs are more than \$ 25,000 but less than \$ 100,000 ; plus
B. 3 % of total costs in excess of \$ 100,000 but less than \$ 500,000 ; plus
C. 2 % of total costs in excess of \$ 500,000

Total cost shall mean the 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 and workover wells shall be excluded.

3. Amendment of Rates

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

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
 - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
 - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

- (b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) 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 published or listed prices 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 providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided 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 ten 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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. 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.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable 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.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.