

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

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
EXHIBIT NO.	<u>1</u>
CASE NO.	<u>6247</u>

100% WI has approved
State has 100% royalty, has approved (Ex 2)
see p 14

*Mobil's Exhibits 1 and 2
Complete Set*

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

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

TABLE OF CONTENTS

Section	Page
Preliminary Recitals	1
ARTICLE 1	
ENABLING ACT AND REGULATIONS	
1. Enabling Act and Regulations	1
ARTICLE 2	
DEFINITIONS	
2. Definitions	1
2.(a) . . . Commission	1
2.(b) . . . Commissioner	1
2.(c) . . . Royalty Interest	2
2.(d) . . . Royalty Owner	2
2.(e) . . . Tract	2
2.(f) . . . Tract Participation	2
2.(g) . . . Unit Area	2
2.(h) . . . Unit Operating Agreement	2
2.(i) . . . Unit Participation	2
2.(j) . . . Unitized Formation	2
2.(k) . . . Unitized Substances	2
2.(l) . . . Working Interest	2
2.(m) . . . Working Interest Owner	2
2.(n) . . . Voting Interest	3
2.(o) . . . Oil and Gas Rights	3
2.(p) . . . Unit Operations	3
2.(q) . . . Unit Equipment	3
2.(r) . . . Unit Expense	3
ARTICLE 3	
EXHIBITS	
3. Exhibits	3
ARTICLE 4	
EXPANSION OF UNIT AREA	
4. Expansion of Unit Area	3
ARTICLE 5	
UNITIZED LAND AND UNITIZED SUBSTANCES	
5. Unitized Land and Unitized Substances	4
ARTICLE 6	
UNIT OPERATOR	
6. Unit Operator	4
ARTICLE 7	
RESIGNATION OR REMOVAL OF UNIT OPERATOR	
7. Resignation or Removal of Unit Operator	4
ARTICLE 8	
SUCCESSOR UNIT OPERATOR	
8. Successor Unit Operator	5

ARTICLE 9
ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

9	Accounting Provisions and Unit Operating Agreement.	5
-------------	---	---

ARTICLE 10
RIGHTS AND OBLIGATIONS OF UNIT OPERATOR

10	Rights and Obligations of Unit Operator	5
--------------	---	---

ARTICLE 11
EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALITY

11	Equipment and Facilities not Fixtures Attached to Realty.	6
--------------	---	---

ARTICLE 12
PLAN OF FURTHER DEVELOPMENT AND OPERATION

12	Plan of Further Development and Operation	6
--------------	---	---

ARTICLE 13
PARTICIPATION

13	Participation	6
--------------	-------------------------	---

ARTICLE 14
ALLOCATION OF UNITIZED SUBSTANCES

14	Allocation of Unitized Substances	8
--------------	---	---

ARTICLE 15
BALANCING OF PRODUCTION

15	Balancing of Production	8
--------------	-----------------------------------	---

ARTICLE 16
TAKING UNITIZED SUBSTANCES IN KIND

16	Taking Unitized Substances in Kind.	9
--------------	---	---

ARTICLE 17
FAILURE TO TAKE IN KIND

17	Failure to Take in Kind	9
--------------	-----------------------------------	---

ARTICLE 18
ENERGY POLICY AND CONSERVATION ACT

18	Certification of Unit Production.	9
--------------	---	---

ARTICLE 19
ROYALTY SETTLEMENT

19	Royalty Settlement.	11
--------------	-----------------------------	----

ARTICLE 20
RENTAL SETTLEMENT

20	Rental Settlement	12
--------------	-----------------------------	----

ARTICLE 21
CONSERVATION

21	Conservation.	12
--------------	-----------------------	----

ARTICLE 22
DRAINAGE

22	Drainage	12
--------------	--------------------	----

ARTICLE 23
LEASES AND CONTRACTS CONFORMED AND EXTENDED

23	Leases and Contracts Conformed and Extended.	12
--------------	--	----

ARTICLE 24
COVENANTS RUN WITH LAND

24	Covenants Run with Land.	13
--------------	----------------------------------	----

ARTICLE 25
EFFECTIVE DATE AND TERM

25	Effective Date and Term.	13
--------------	----------------------------------	----

ARTICLE 26
IPSO FACTO TERMINATION

26	Ipsa Facto Termination	14
--------------	----------------------------------	----

ARTICLE 27
TERM

27	Term	14
--------------	----------------	----

ARTICLE 28
APPEARANCE

28	Appearance	15
--------------	----------------------	----

ARTICLE 29
NOTICES

29	Notices.	15
--------------	------------------	----

ARTICLE 30
NO WAIVER OF CERTAIN RIGHTS

30	No Waiver of Certain Rights.	15
--------------	--------------------------------------	----

ARTICLE 31
UNAVOIDABLE DELAY

31	Unavoidable Delay.	15
--------------	----------------------------	----

ARTICLE 32
TITLE

32	Title.	15
--------------	----------------	----

ARTICLE 33
COUNTERPARTS

33	Counterparts	16
--------------	------------------------	----

Section	Page
ARTICLE 34 TAXES	
34 Taxes	16
ARTICLE 35 CONFLICT OF SUPERVISION	
35 Conflict of Supervision	17
ARTICLE 36 NO PARTNERSHIP	
36 No Partnership.	17
ARTICLE 37 NO SHARING OF MARKET	
37 No Sharing of Market.	18
ARTICLE 38 BORDER AGREEMENTS	
38 Border Agreements	18

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
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.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interests in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, 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:

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

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.

16. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. 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 it 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.

3. Upper Tier Crude Oil and Old Oil shall each be allocated to each Tract in proportion to the quantities that each Tract's 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.

*Has proposed that this
be extended to 7-1-79
95% of WI has approved
has not yet been
submitted to Land Ofc.*

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.

37. NO SHARING OF MARKET. This agreement is not intended to 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

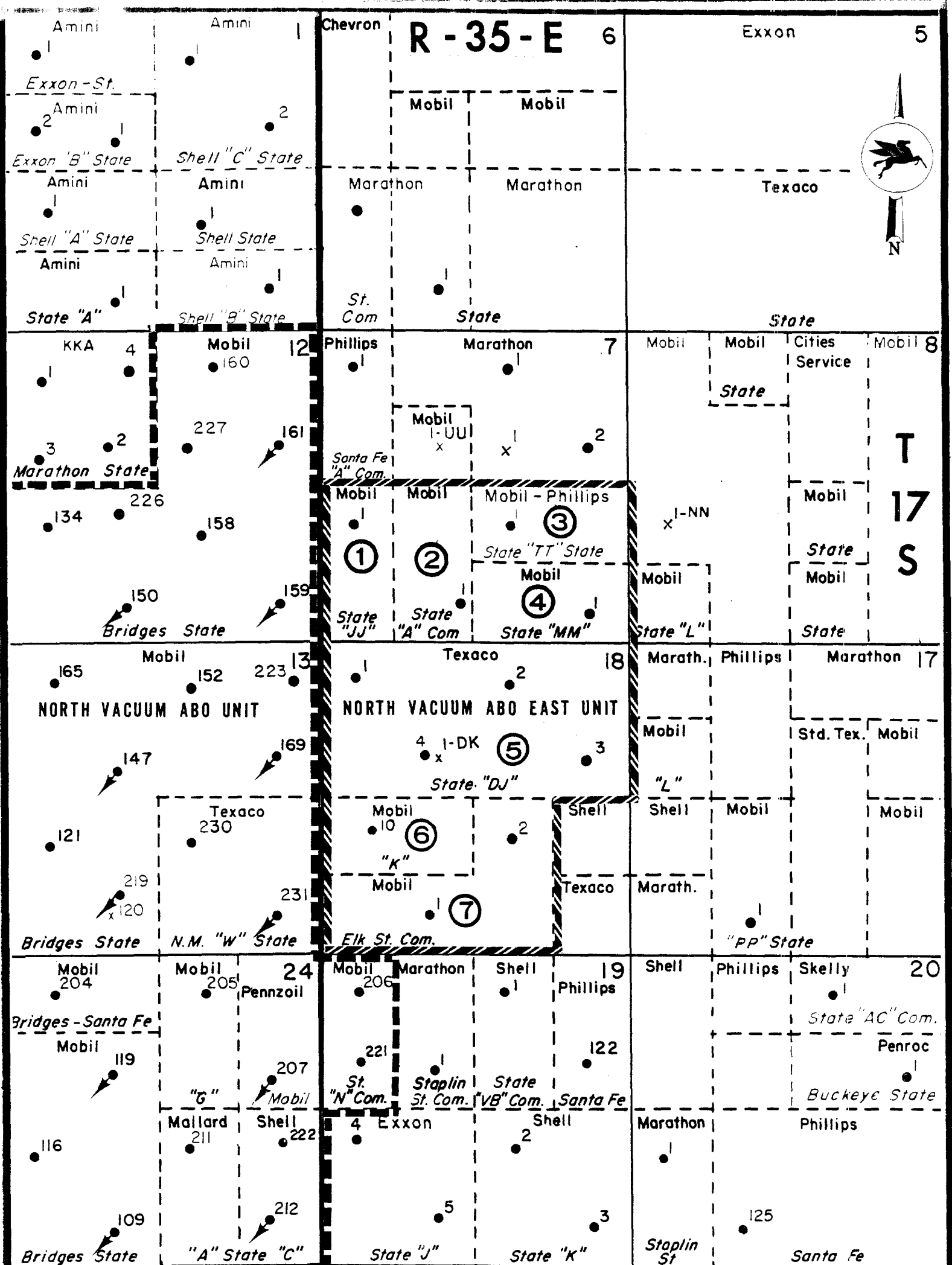
COUNTY OF HARRIS

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 6-7-79

My Commission Expires:



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

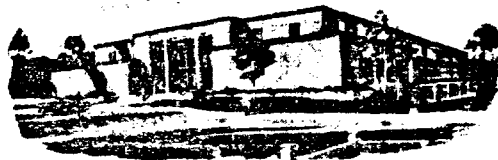
CT BER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER	% WORKING INTEREST IN TRACT	PERCENT UNIT PARTICIPATION	
									Phase I	Phase II
1	State "JJ" T-17-S, R-35-E, Sec. 7, Lots 3 & 4	75.18	B-1527	State of New Mexico 12.5%	Mobil Oil Corporation	None	Mobil Oil Corporation	100.0000	10.83062	10.51392
2	State "A" Com. T-17-S, R-35-E, Sec. 7, NE/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	9.29561
3	State "TT" com. T-17-S, R-35-E, Sec. 7, NW/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	5.71906 5.71906
								<u>100.0000</u>	<u>13.96434</u>	<u>11.43812</u>
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	14.50564

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 100.0000	4.83920 4.98499 9.82419	4.45040 4.58447 9.03487
		865.74							100.00000	100.00000

Total acres



State of New Mexico



Commissioner of Public Lands

November 29, 1977

PHIL R. LUCERO
COMMISSIONER

Mobil Oil Corporation
Three Greenway Plaza East
Suite 800
Houston, Texas 77046

REPORT ON LAND	SANTA FE, NEW MEXICO
CASE NO. 6247	

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Re: Proposed-North Vacuum Abo East Unit
Lea County, New Mexico

ATTENTION: Mr. E. R. Frazier

Gentlemen:

We have reviewed the executed copies of unit agreement, which you submitted with your letter of November 22, 1977, as well as Exhibits "A" and "B" for the proposed North Vacuum Abo East Unit, Lea County, New Mexico. The form of agreement meets the requirements of the Commissioner of Public Lands, therefore, your agreement has been approved as to form and content.

The following are required by this office when submitting your agreement for final approval.

1. Application for final approval stating all Tracts committed and Tracts not committed.
2. Two copies of Unit Agreement, one must contain original signatures.
3. One signed copy of Operating Agreement.
4. All ratifications, two copies, from Lessees of Record and Working Interest Owners, one must be original signatures.
5. One copy of the New Mexico Oil Conservation Commission order.
6. Your Initial Plan of Operation.
7. Re-designation of well names and numbers.

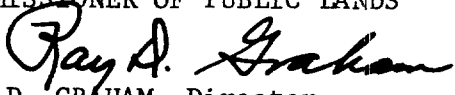
Mobil Oil Corporation
November 29, 1977
Page 2.

8. The filing fee in the amount of Twenty (\$20.00) Dollars.
9. Certificate of effectiveness.

If we may be of further assistance please do not hesitate to call on us.

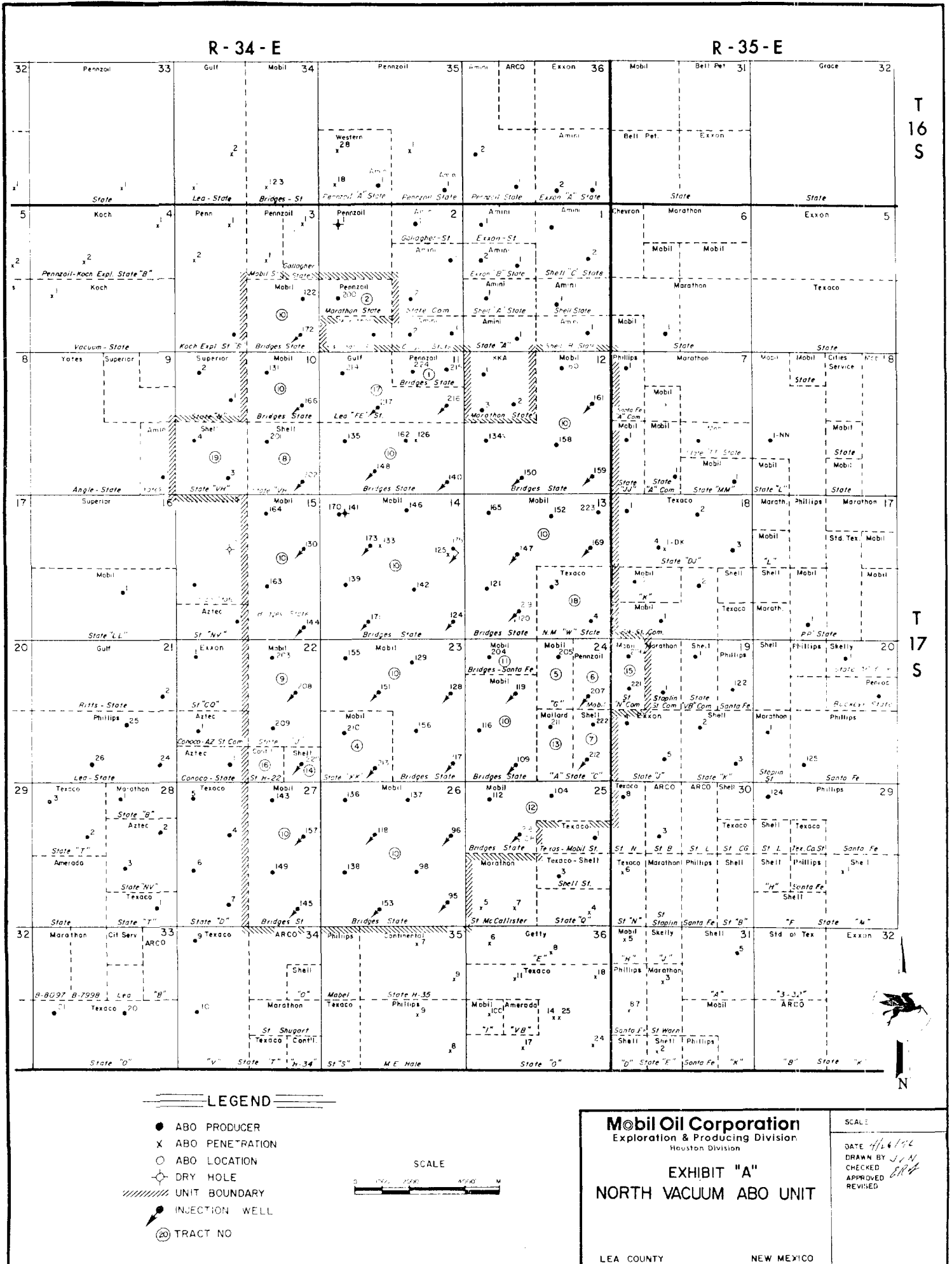
Very truly yours,

PHIL R. LUCERO
COMMISSIONER OF PUBLIC LANDS

BY: 
RAY D. GRAHAM, Director
Oil and Gas Division

PRL/RDG/s

Pennzoil Exhibit 1



Pennzoil
6247