

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION
OF THE
MESA GALLUP UNIT AREA
COUNTY OF SAN JUAN
STATE OF NEW MEXICO

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
Preliminary Recitals	1
1 Enabling Act and Regulations	2
2 Unit Area	3
3 Expansion of Unit area	4
4 Unitized Land and Unitized Substances	5
5 Tracts Qualified for Participation	5
6 Unit Operator	8
7 Resignation or Removal of Unit Operator	8
8 Successor Unit Operator	10
9 Accounting Provisions and Unit Operating Agreement	10
10 Rights and Obligations of Unit Operator	11
11 Plan of Operation	12
12 Participation and Allocation of Production	13
13 Royalty Settlement	15
14 Rental Settlement	17
15 Conservation	18
16 Drainage	18
17 Gauge of Merchantable Oil	18
18 Lease and Contracts Conformed and Extended	18
19 Covenants Run with Land	21
20 Effective Date	21
21 Term	22
22 Termination by Working Interest Owners	22
23 Rate of Prospecting, Development, and Production	23
24 Appearances	23
25 Notices	24
26 No Waiver of Certain Rights	24
27 Unavoidable Delay	24
28 Non-Discrimination	25
29 Wyoming State Land Provisions	25
30 Loss of Title	27
31 Subsequent Joinder	28
32 Counterparts	29
33 Royalty Owners' Taxes	29
34 No Partnership	30
35 Border Agreements	30
36 Correction of Errors	30

- ✓ Exhibit A: Map of Unit Area
- ✓ Exhibit B: Description of Unit Area
- ✓ Exhibit C: Tract and Tract Participation

BEFORE EXAMINER STOGNER OIL CONSERVATION DIVISION
GRAND RESERVE EXHIBIT NO. <u>2</u>
CASE NO. <u>9836</u>

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
MESA GALLUP UNIT AREA
COUNTY OF SAN JUAN
STATE OF NEW MEXICO

1 THIS AGREEMENT, entered into as of the 1st day of September,
2 1989, by and between the parties subscribing, ratifying or consenting
3 hereto, and herein referred to as the "parties hereto",

4 W I T N E S S E T H:

5 WHEREAS, the parties hereto are the owners of working, royalty,
6 or other oil interests in the Unit Area subject to this Agreement; and

7 WHEREAS, the term "Working Interest" as used herein shall mean
8 the interest held in Unitized Substances or in lands containing Unitized
9 Substances by virtue of a lease, operating agreement, fee title, or
10 otherwise, which is chargeable with and obligated to pay or bear all or
11 a portion of the costs of drilling, developing, producing, and operating
12 the land under the unit or cooperative agreement. "Royalty Interest"
13 as used herein shall mean a right to or interest in any portion of the
14 Unitized Substances or proceeds thereof other than a Working Interest;
15 The owner of oil and gas rights that are free of lease or other instrument
16 conveying the working interest rights to another shall be regarded as a
17 Working Interest Owner to the extent of a seven-eighths (7/8ths) interest
18 in and to such oil and gas rights, and as a Royalty Interest Owner to the
19 extent of the remaining one-eighth (1/8th) interest therein; and

20 WHEREAS, the rules and regulations governing the leasing of
21 allotted Indian lands for oil and gas promulgated by the Secretary
22 of the Interior (25 CFR Part 172) under and pursuant to the Tribal &

1 Allotted Land Leasing Act of March 3, 1909, 35 Stat. 783, 25
2 U.S.C. Sec. 396 and the oil and gas leases covering said
3 allotted Indian lands provide for the commitment of such
4 leases to a cooperative or unit plan of development or
5 operation;

6 WHEREAS, it is the purpose of the parties hereto to
7 conserve natural resources, prevent waste, and secure other
8 benefits obtainable through development and operation of
9 the Arca subject to this Agreement under the terms, conditions,
10 and limitations herein set forth;

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

15 ENABLING ACT AND REGULATIONS. The Allotted and Tribal
16 Leasing Act of March 3, 1909, and the Mineral Leasing Act of
17 February 25, 1920, as amended, supra, and all valid pertinent
18 regulations, including operating and unit plan regulations,
19 heretofore issued thereunder or valid, pertinent and reasonable
20 regulations hereafter issued thereunder are accepted and made a
21 part of this Agreement as to Federal Lands and Indian Lands,
22 provided such regulations are not inconsistent with the terms
23 of this agreement; and as to State of New Mexico lands, the
24 oil and gas operating regulations in effect as of the effective
25 date hereof governing drilling and producing operations, not
26 inconsistent with the terms hereof or the laws of the State of
27 New Mexico in which the non-Federal and non-Indian land is
28 located, are hereby accepted and made a part of this agreement.

drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this Agreement.

2. UNIT AREA. The area specified on the plat attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 2,120 acres, more or less.

Exhibit "A" shows in addition to the boundary of the Unit Area, the boundaries and identity of tracts and leases in said Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage and kind of ownership of oil interests in all land in the Unit Area. Exhibit "C" attached hereto, is a schedule showing the percentage of participation credited to each Tract in the Unit Area based upon a presumed one hundred percent (100%) commitment. (Tract means each parcel of land described as such and given a Tract Number in Exhibit "B"). However, nothing herein or in said schedule or map shall be construed as a representation by any party as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the Unit Area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor" or by the Commission. In such case not less than six (6) copies of the revised exhibits shall be filed with the Supervisor.

*The Tracts shown on Exhibit "A" and described in Exhibit "B" have been drawn in a manner to conform to the 2,120 acre spacing order currently in effect and covering the entire Unit Area.

3. EXPANSION OF UNIT AREA. Any enlargement of the Unit Area shall require approval by the Director of the United States Geological Survey, hereinafter referred to as "Director". The unit area may, with the approval of the Director, be expanded to include therein any additional lands whenever such expansion is necessary or advisable to conform with the purposes of this agreement. Subject to such approval of the Director, any such expansion may be accomplished either (1) by order of the New Mexico Oil and Gas Commission, or (2) pursuant to

agreement fixing the tract participation of each tract added by such expansion and providing for the commitment of the interests of the owner thereof to his agreement, and, if applicable, to the unit operating agreement, and negotiated with such owners by the unit operator acting on behalf of the working interest owners collectively after being duly authorized by them as provided in the unit operating agreement. Whenever the unit area is enlarged so as to admit additional land qualified for participation, Exhibit "C" shall be revised as set forth in Section 12, Participation and Allocation of Production. Any such expansion shall be effected in the following manner:

- 19 (a) Unit Operator, on its own motion, after preliminary
20 concurrence by the Director, shall prepare a notice of
21 proposed expansion describing the contemplated changes
22 in the boundaries of the Unit Area, the reasons therefor,
23 and the proposed effective date thereof, preferably the
24 first day of a month subsequent to the date of notice.
25 (b) Said notice shall be delivered to the Supervisor,
26 and copies thereof mailed to the last known address of
27 each Working Interest Owner, Lessee, and Lessor whose
28 interests are affected, advising that thirty (30) days
29 will be allowed for submission to the Unit Operator of
30 any objections.

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1 (c) Upon expiration of the thirty (30) day period provided
2 in the preceding item (b) hereof, Unit Operator shall file
3 with the Supervisor evidence of mailing of the notice of
4 expansion and a copy of any objections thereto which
5 have been filed with the Unit Operator, together with an
6 application and appropriate joinder in sufficient number,
7 for approval of such expansion.

8 (d) After due consideration of all pertinent information,
9 the expansion shall, upon approval by the Supervisor,
10 become effective as of the date prescribed in the notice
11 thereof.

12 4. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed
13 to this Agreement as provided in Section 5, Tracts Qualified for
14 Participation, as to the Unitized Formation defined immediately below,
15 shall constitute land referred to herein as "Unitized Land" or "land
16 subject to this Agreement". All oil and gas in and produced from the
17 Unitized Formation is unitized under the terms of this Agreement and
18 herein is called "Unitized Substances".

19 The Unitized Formation shall mean the Mesa Gallup Formation as
20 identified by the Schlumberger Combination Induction Gamma Ray
21 log run in the Navajo Tribal "C", # 1 well, located in the NW/4
22 section 24 Township 32N, Range 18W, San Juan County, New Mexico,
23 with the top of the unitized formation being found at a depth
24 of 1,220 feet below the surface (-4,216 feet subsea) and the base
25 of the unitized formation being found at a depth of 1,240 feet
26 below the surface (-4,196 feet subsea).

27 5. TRACTS QUALIFIED FOR PARTICIPATION. Inasmuch as the objective
28 of this Unit Agreement is to have lands in the Unit Area operated and
29 entitled to participation under the terms hereof, no joinder shall be
30 considered a commitment to this Unit Agreement unless the Tract involved

1 is qualified under this Section. On or after the effective date hereof,
2 the Tracts within the Unit Area which, in absence of an involuntary pooling
3 order issued by the Commission, shall be entitled to participation in the
4 production of Unitized Substances therefrom shall be those Tracts within
5 the Unit Area more particularly described in Exhibit "B" that are quali-
6 fied as follows (for the purposes of this section, the record interest
7 shall replace the royalty interest as to Federal Land):

8 (a) Each Tract as to which Working Interest Owners owning
9 one hundred percent (100%) of the Working Interest have
10 signed or ratified this Agreement and the Unit Operating
11 Agreement and Royalty Owners owning seventy-five percent (75%)
12 or more of the royalty created by the basic leases have
13 signed or ratified this Agreement;

14 (b) Each Tract as to which Working Interest Owners
15 owning one hundred percent (100%) of the Working Interests
16 have signed or ratified this Agreement and the Unit Operating
17 Agreement, and Royalty Owners owning less than seventy-five
18 percent (75%) of the royalty interests created by the basic
19 leases have signed or ratified this Agreement, and as to
20 which (1) all Working Interest Owners in such Tract join in
21 a request for inclusion of such Tract in Unit Participation
22 upon the basis of such commitment status, and further as to
23 which (2) seventy-five percent (75%) or more of the combined
24 voting interests of Working Interest Owners in all Tracts
25 which meet the requirements of Subsection 5(a) vote in favor
26 of the acceptance of such Tract as qualified. For the
27 purpose of this Subsection 5(b), the voting interest of
28 each Working Interest Owner shall be equal to the ratio
29 (expressed in percentage) which the total of such Working
30 Interest Owner's percentage participation in all Tracts which

1 qualify under Subsection 5(a), bears to the total percentage
2 participation of all Working Interest Owners in all Tracts
3 which qualify under said Subsection 5(a) as such percentages
4 are shown on Exhibit "C";

5 (c) Each Tract as to which Working Interest Owners owning
6 less than one hundred percent (100%) of the Working Interest
7 have signed or ratified this Agreement and the Unit Operating
8 Agreement, regardless of the percentage of royalty interest
9 therein that is committed hereto, and as to which (1) the
10 Working Interest Owner who operates the Tract and all of the
11 other subscribing Working Interest Owners in such Tract
12 have joined in a request for inclusion of such Tract in
13 Unit participation upon the basis of such commitment
14 status and have tendered and executed and delivered an
15 indemnity agreement, indemnifying and agreeing to hold
16 the owners of the working interests in the other qualified
17 tracts harmless from and against any and all claims and
18 demands that may be made by the non-subscribing Working
19 Interest Owners in such Tract on account of the inclusion
20 of the same in Unit participation, and further as to
21 which (2) seventy-five percent (75%) or more of the
22 combined voting interests of the Working Interest Owners
23 in all Tracts which meet the requirements of Subsection
24 5(a) and 5(b) above, vote in favor of the inclusion of
25 such Tract. For the purpose of this Subsection 5(c), the
26 voting interest of each Working Interest Owner shall be
27 equal to the ratio (expressed in percentage) which the
28 total of such Working Interest Owner's percentage partici-
29 pation attributed to Tracts which qualify under Subsections
30 5(a) and 5(b) bears to the total percentage of all Working

1 Interest Owners attributed to all Tracts which qualify
2 under Subsections 5(a) and 5(b), as such percentages
3 are set out in Exhibit "C".

4 Notwithstanding anything in this section to the contrary
5 all tracts within the Unit Area shall be deemed to be qualified for
6 participation if this Agreement and the Unit Operating Agreement
7 are duly approved as a Plan of Unitization and Operating Plan by
8 order of the New Mexico and Gas Conservation Commission.

10
11 6. UNIT OPERATOR. GRAND RESOURCES, INC.

12 is hereby designated as Unit Operator, and by signature hereto as
13 Unit Operator agrees and consents to accept the duties and obligations
14 of Unit Operator for the development and production of Unitized Sub-
15 stances as herein provided. Whenever reference is made herein to
16 the Unit Operator, such reference means the Unit Operator acting in
17 that capacity and not as an owner of interest in Unitized Substances,
18 and the term "Working Interest Owner" when used herein shall include
19 or refer to Unit Operator as the owner of a Working Interest when
20 such an interest is owned by it.

21 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator
22 shall have the right to resign at any time, but such resignation shall
23 not become effective so as to release Unit Operator from the duties
24 and obligations of Unit Operator and terminate that Operator's rights
25 as such for a period of six (6) months after notice of intention to
26 resign has been served by Unit Operator on all Working Interest Owners
27 and the Director, and until all wells are placed in a satisfactory con-
28 dition for suspension or abandonment whichever is required by the Super-
29 visor, unless a new Unit Operator shall have been selected and accepted
30 and shall have taken over and assumed the duties and obligations of Unit
31 Operator prior to the expiration of said period.

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

4 The Unit Operator may, upon default or failure in the per-
5 formance of its duties or obligations hereunder, be subject to
6 removal by an affirmative vote of a majority of Working Interest
7 Owners, provided that if a majority but less than 75 percent of
8 the Working Interests qualified to vote are owned by one (1)
9 party to this agreement, a concurring vote of one or more ad-
10 ditional Working Interest Owners shall be required to remove the
11 Unit Operator after excluding the voting interest of the Unit
12 Operator. Such removal shall be effective upon notice thereof
13 to the Director. In all such instances of resignation or re-
14 moval, until a successor Unit Operator is selected and accepted
15 as hereinafter provided, the Working Interest Owners shall be
16 jointly responsible for performance of the duties of Unit
17 Operator, and shall not later than thirty (30) days before such
18 resignation or removal becomes effective appoint a common agent
19 to represent them in any action to be taken hereunder.

20 The resignation or removal of Unit Operator under this Agree-
21 ment shall not terminate its right, title or interest as the owner
22 of a Working Interest or other interest in Unitized Substances, but
23 upon the resignation or removal of Unit Operator becoming effective,
24 such Unit Operator shall deliver possession of all wells, equipment,
25 materials, and appurtenances used in conducting the Unit operations
26 and owned by the Working Interest Owners to the new duly qualified
27 successor Unit Operator or to the owners thereof if no such new
28 Unit Operator is elected, to be used for the purpose of conducting
29 Unit operations hereunder. Nothing herein shall be construed as
30 authorizing removal of any material, equipment, and appurtenances
31 needed for the preservation of any well* 

1 8. SUCCESSOR UNIT OPERATOR.. Whenever the Unit Operator
2 shall tender his or its resignation as Unit Operator or shall be
3 removed as hereinabove provided, or a change of Unit Operator is
4 negotiated by Working Interest Owners, a successor Unit Operator shall
5 be selected by Working Interest Owners voting according to their
6 respective Tract participation in all unitized land by a majority
7 vote; provided, that, if a majority but less than 75 percent of
8 the Working Interests qualified to vote are owned by one party to
9 this agreement, a concurring vote of one or more additional Working
10 Interest Owners shall be required to select a new Operator. Such
11 selection shall not become effective until:

12 (a) a Unit Operator so selected shall accept in writing
13 the duties and responsibilities of Unit Operator;

14 and

15 (b) the selection shall have been approved by the
16 Supervisor.

17 If no successor Unit Operator is selected and qualified
18 as herein provided, the Director at his election may declare this
19 Unit Agreement terminated.

20 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.

21 If the Unit Operator is not the sole owner of Working Interests,
22 costs, and expenses incurred by Unit Operator in conducting Unit
23 Operations hereunder shall be paid and apportioned among and borne
24 by the owners of Working Interests, all in accordance with the
25 agreement or agreements, whether one or more, separately or collec-
26 tively, entered into by and between the Unit Operator and the
27 owners of Working Interests. Any agreement or agreements, whether
28 one or more, entered into between the Working Interest Owners and
29 the Unit Operator as provided in this section are herein referred
30 to as the "Unit Operating Agreement".

1 Such Unit Operating Agreement shall also set forth such
2 other rights and obligations as between Unit Operator and the Working
3 Interest Owners as may be agreed upon by Unit Operator and the Working
4 Interest Owners, however, no such Unit Operating Agreement shall be
5 deemed either to modify any of the terms and conditions of this
6 Unit Agreement or to relieve the Unit Operator of any right or obli-
7 gation established under this Unit Agreement, and in case of any
8 inconsistency or conflict between the Unit Agreement and the Unit
9 Operating Agreement, this Unit Agreement shall prevail. Three (3)
10 true copies of any Unit Operating Agreement executed pursuant to
11 this section shall be filed with the Supervisor prior to approval
12 of this Unit Agreement, and thereafter promptly after any revision
13 or amendment.

14 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as
15 otherwise specifically provided herein, the exclusive right, privilege,
16 and duty of exercising any and all rights of the parties hereto,
17 including surface rights, which are necessary or convenient for
18 prospecting for, producing, storing, allocating, and distributing
19 the Unitized Substances are hereby delegated to and shall be exer-
20 cised by the Unit Operator as herein provided. Acceptable evidence
21 of title to said rights shall be deposited with said Unit Operator
22 and, together with this Agreement, shall constitute and define the
23 rights, privileges, and obligations of Unit Operator. Nothing herein,
24 however, shall be construed to transfer title to any land or to any
25 lease or operating agreement, it being understood that under this
26 Agreement the Unit Operator, in its capacity as Unit Operator, shall
27 exercise the rights of possession and use vested in the parties
28 hereto only for the purposes herein specified.

1 11. PLAN OF OPERATION. It is recognized and agreed by the
2 parties hereto that the Unit Area is developed and productive, and
3 only such drilling as is incidental to a secondary recovery or pressure
4 maintenance program is contemplated.

5 Inasmuch as the primary purpose of this Unit Agreement is
6 to permit the institution and consummation of a secondary recovery
7 or pressure maintenance program for the maximum economic production
8 of Unitized Substances consistent with good engineering and conser-
9 vation practices, Unit Operator, concurrently with the filing of
10 this Unit Agreement for final approval by the Supervisor, shall
11 submit to the Supervisor for approval, a plan of operation for the
12 Unitized Land, and upon approval thereof by the Supervisor, such
13 plan shall constitute the future operating obligations of the Unit
14 Operator under this Unit Agreement for the period specified therein.
15 Thereafter, from time to time before the expiration of any existing
16 plan, the Unit Operator shall submit for like approval a plan for
17 an additional specified period of operation; said plan or plans
18 shall be modified or supplemented when necessary to meet changed
19 conditions, or to protect the interest of all parties to the Unit
20 Agreement. Reasonable diligence shall be exercised in complying with
21 the obligations of any approved plan of operation.

22 Unit Operator shall have the right to inject into the
23 Unitized Formation any substances for secondary recovery or pressure
24 maintenance purposes in accordance with a plan of operation approved
25 by the Supervisor, including the right to drill and maintain injection
26 wells on the Unitized Land and completed in the Unitized Formation, and
27 to use abandoned well or wells producing from the Unitized Formation
28 for said purpose, and the parties hereto, to the extent of their rights
29 and interests, hereby grant to the Unit Operator the right to use as
30 much of the surface of the land within the Unit Area as may be reasonably

1 If after the effective date of this Agreement any Tract or
2 Tracts are subsequently committed hereto and qualified because of
3 expansion of the Unit under Section 3, Expansion of Unit Area, or any
4 Tract or Tracts are subsequently qualified under the provisions of
5 Section 5, Tracts Qualified for Participation, and Section 31, Subse-
6 quent Joinder, or if any Tract is eliminated from the Unit Agreement
7 as provided in Section 30, Loss of Title, the schedule of participation
8 as shown in Exhibit "C" shall be revised by the Unit Operator to show
9 the new Tract Participations of all the then qualified Tracts; and
10 the revised Exhibit "C", upon approval by the Supervisor, shall govern
11 the allocation of production from the effective date thereof until a
12 new schedule is so approved. In any such revised Exhibit "C", pursuant
13 to this paragraph, the Tract Participation of the previously qualified
14 Tracts shall remain in the same ratio one to the other.

15 On the effective date of this Agreement, and thereafter, all
16 Unitized Substances produced hereunder (except any part thereof used
17 in conformity with good operating practices for drilling, operating,
18 camp, and other production or development purposes, for pressure
19 maintenance or secondary recovery operations in accordance with a
20 plan of operation approved by the Supervisor, or unavoidably lost),
21 shall be deemed to be produced from the several Tracts of Unitized
22 Land, and for the purpose of determining any benefits accruing under
23 this Agreement each such Tract shall have allocated to it that per-
24 centage of said production equal to its Tract Participation effective
25 hereunder during the respective period such Unitized Substances were
26 produced, as set out in Exhibit "C".

27 If, as of the effective date hereof, any Tract is over-
28 produced with respect to the allowables of the wells on that Tract
29 as established by the State of New Mexico, and the amount of overproduction
30 has been sold or otherwise disposed of, such overproduction shall be

1 regarded as a part of the Unitized Substances produced after the
2 effective date hereof and shall be charged to such Tract as having
3 been delivered to the parties entitled to Unitized Substances allo-
4 cated to such Tracts.

5 The amount of Unitized Substances allocated to each Tract
6 shall be deemed to be produced from such Tract irrespective of the
7 location of the wells from which the same is produced and regard-
8 less of depletion of wells or Tracts. In the absence of a control-
9 ling contract or agreement to the contrary, when two or more leases,
10 or part or parts thereof have been combined into a single Tract, the
11 percentage participation assigned to such Tract shall for all pur-
12 poses be divided among the separate leases, or part or parts thereof,
13 which have been put into such Tract, in proportion to the number of
14 surface acres of the leases, or part or parts thereof contained in
15 such Tract to the total surface acres contained in said Tract.

16 13. ROYALTY SETTLEMENT. The United States and all Royalty
17 Owners who, under existing contract, are entitled to take in kind
18 a share of the substance now unitized hereunder produced from any
19 tract, shall hereafter be entitled to the right to take in kind
20 their share of the Unitized Substances allocated to such tract, and
21 Unit Operator shall make deliveries of such royalty share taken in
22 kind in conformity with the applicable contracts, laws, and regula-
23 tions. Settlement for Royalty Interest not taken in kind shall be
24 made by Working Interest Owners responsible therefor under existing
25 contracts, laws, and regulations on or before the last day of each
26 month for Unitized Substances produced during the preceding calendar
27 month; provided, however, that nothing herein contained shall operate
28 to relieve the lessees of any land from their respective lease obli-
29 gations for the payment of any royalties due under their leases.

1 If gas obtained from lands or formations not subject to
2 this Agreement is introduced into the Unitized Formation hereunder,
3 for use in repressuring, stimulation of production, or increasing
4 ultimate recovery, which shall be in conformity with a plan first
5 approved by the Supervisor, a like amount of gas less appropriate
6 deduction for loss or depletion from any cause, may be withdrawn
7 from the Unitized Formation, royalty free as to dry gas, but not
8 as to the products extracted therefrom; provided that such withdrawal
9 shall be at such time as may be provided in the approved plan of
10 operations or as may otherwise be consented to by the Supervisor
11 as conforming to good petroleum engineering practice; and provided
12 further, that such right of withdrawal shall terminate on the
13 termination of this Unit Agreement.

14 If natural gasoline, liquid petroleum gas fractions or
15 other liquid hydrocarbon substances (herein collectively called
16 "LPGS") which were not extracted from gas produced from the Unitized
17 Formation are injected into the Unitized Formation, which shall be
18 in conformity with a plan of operation first approved by the Super-
19 visor, Working Interest Owners shall be entitled to recover, roy-
20 alty free, part of all of such "LPGS" pursuant to such conditions
21 and formulas as may be prescribed or approved by the Supervisor.

22 Royalty due the United States shall be computed as pro-
23 vided in the operating regulations and paid in value or delivered
24 in kind as to all Unitized Substances on the basis of the amounts
25 thereof allocated to unitized Federal land as provided herein at
26 the rates specified in the respective Federal leases, or at such
27 lower rates as may be authorized by law or regulation; provided
28 that for leases on which the royalty rate depends on the daily
29 average production per well, said average production shall be

1 determined in accordance with the operating regulations as though the
2 Unitized Lands were a single consolidated lease.

3 As to non-Federal lands, any royalty or other payment which
4 varies under the terms of the instrument creating it, according to
5 actual production from a Tract or according to the capabilities of
6 wells located thereon to produce, shall, on and after the effective
7 date, be computed upon that portion of the Unitized Substances
8 allocated to the particular Tract and not upon the actual production
9 of oil and gas from the Tract or the capability of the well thereon
10 to produce. If any such royalty or other payment depends on the
11 production or pipeline runs from a well, such production or pipeline
12 run shall be determined by dividing the Unitized Substances allocated
13 to the Tract by the number of wells located thereon that were capable
14 of producing or capable of being used in unit operations as a pro-
15 ducing well or otherwise as of the effective date. If any Tract
16 has no such well located thereon as of the effective date, it shall
17 be treated as having one well within the meaning of this section.

18 14. RENTAL SETTLEMENT. Rental or minimum royalties due on
19 leases committed hereto shall be paid by Working Interest Owners
20 responsible therefor under existing contracts, laws, and regulations,
21 provided that nothing herein contained shall operate to relieve
22 the lessees of any land from their respective lease obligations for
23 the payment of any rental or minimum royalty in lieu thereof due
24 under their leases. Rental and minimum royalty for lands of the
25 United States subject to this Agreement shall be paid at the rate
26 specified in the respective leases from the United States unless
27 such rental or minimum royalty is waived, suspended or reduced by
28 law or by approval of the Secretary or his duly authorized representative.

1 15. CONSERVATION. Operations hereunder and production of
2 Unitized Substances shall be conducted to provide for the most eco-
3 nomical and efficient recovery of said substances without waste, as
4 defined by or pursuant to State or Federal law or regulation.

5 16. DRAINAGE. The Unit Operator shall take appropriate and
6 adequate measures to prevent drainage of Unitized Substances from
7 Unitized Land by wells on land not subject to this Agreement, or
8 with prior consent of the Director, pursuant to applicable regula-
9 tions pay a fair and reasonable compensatory royalty as determined
10 by the Supervisor. In event compensatory royalty is so paid, it
11 shall be treated in the same manner as Unitized Substances.

12 17. GAUGE OF MERCHANTABLE OIL. Unit Operator shall make a
13 proper and timely gauge of all lease and other tanks within the
14 Unit Area and associated with the operation of Unitized Land in
15 order to ascertain the amount of merchantable oil above the pipe-
16 line connections in such tanks at 7:00 A. M. on the effective date
17 hereof. All such oil shall be and remain the property of the
18 parties entitled thereto the same as if the Unit had not been
19 formed; and such parties shall promptly remove said oil from said
20 tanks. Any such oil not so removed shall be sold by Unit Opera-
21 tor for the account of parties entitled thereto, subject to the
22 payment of all royalties, overriding royalties, production payments,
23 and all other payments under the terms and provisions of the
24 applicable lease, leases, or other contracts.

25 18. LEASE AND CONTRACTS CONFORMED AND EXTENDED. The terms,
26 conditions, and provisions of all leases, subleases, and other
27 contracts relating to exploration, drilling, development, or oper-
28 ation for oil or gas of lands committed to this Agreement are
29 hereby expressly modified and amended to the extent necessary to

1 make the same conform to the provisions hereof, but otherwise to
2 remain in full force and effect; and the parties hereto hereby
3 consent that the Secretary shall and by his approval hereof, or
4 by the approval hereof by his duly authorized representative, does
5 hereby establish, alter, change, or revoke the drilling, producing,
6 rental, minimum royalty, and royalty requirements of Federal leases
7 committed hereto and the regulations in respect thereto to conform
8 said requirements to the provisions of this Agreement, and, without
9 limiting the generality of the foregoing, all leases, subleases,
10 and contracts are particularly modified in accordance with the
11 following:

12 (a) The development and operation of lands subject to
13 this Agreement under the terms hereof shall be deemed
14 full performance of all obligations for development and
15 operation with respect to each and every part or sepa-
16 rately owned Tract subject to this Agreement, regardless
17 of whether there is any development of any particular part
18 or Tract of the Unitized Land, notwithstanding anything
19 to the contrary in any lease, operating agreement, or
20 other contract by and between the parties hereto, or
21 their respective predecessors in interest, or any of
22 them.

23 (b) Drilling and producing operations performed here-
24 under upon any Tract of Unitized Land will be accepted
25 and deemed to be performed upon and for the benefit of
26 each and every Tract of Unitized Land, and no lease shall
27 be deemed to expire by reason of failure to drill or
28 produce wells situated on the land therein embraced.

1 (c) Suspension of drilling or producing operations on
2 all Unitized Land pursuant to direction or consent of
3 the Secretary or his duly authorized representative shall
4 be deemed to constitute such suspension pursuant to such
5 direction or consent as to each and every Tract of
6 Unitized Land.

7 (d) Each lease, sublease, or contract relating to the
8 exploration, drilling, development, or operation for oil
9 or gas of lands committed to this Agreement, which, by
10 its terms might expire prior to the termination of this
11 Agreement; is hereby extended beyond any such term, so
12 provided therein so that it shall be continued in full
13 force and effect for and during the term of this Agree-
14 ment.

15 (e) The segregation of any Federal lease committed to
16 this Agreement is governed by the following provision
17 in the fourth paragraph of Section 17(j) of the Mineral
18 Leasing Act, as amended by the Act of September 2, 1960,
19 (74 Stat. 781-784): "Any (federal) lease heretofore or
20 hereafter committed to any such (unit) plan embracing
21 lands that are in part within and in part outside of the
22 area covered by any such plan shall be segregated into
23 separate leases as to the lands committed and the lands
24 not committed as of the effective date of unitization;
25 Provided, however, that any such lease as to the non-
26 unitized portion shall continue in force and effect for
27 the term thereof but for not less than two years from
28 the date of such segregation and so long thereafter as
29 oil or gas is produced in paying quantities".

1 19. COVENANTS RUN WITH LAND. The covenants herein shall be
2 construed to be covenants running with the land with respect to the
3 interest of the parties hereto and their successors in interest
4 until this Agreement terminates, and any grant, transfer, or con-
5 veyance, of interest in land or leases subject hereto shall be and
6 hereby is conditioned upon the assumption of all privileges and
7 obligations hereunder by the grantee, transferee, or other successor
8 in interest. No assignment or transfer of any Working Interest shall
9 be binding upon Unit Operator nor shall any transfer of any Royalty
10 Interest or other interest be binding on the Working Interest Owner
11 responsible for payment or settlement thereof, until the first day
12 of the calendar month after Unit Operator or the responsible Working
13 Interest Owner, as the case may be, is furnished with the original,
14 photostat, or certified copy of the instrument of transfer.

15 20. EFFECTIVE DATE. This Agreement shall become binding
16 upon each party who executes or ratifies it as of the date of execu-
17 tion or ratification by such party and shall become effective

18 on the first day of the calendar month next following the
19 approval of this Agreement by the Secretary of the Interior, or his
20 duly authorized delegate.

21 Unit Operator shall within thirty (30) days after the
22 effective date of this Agreement file for record in the office or
23 offices where a counterpart of this Agreement is recorded, a certi-
24 ficate to the effect that this Agreement has become effective
25 according to its terms and stating further the effective date.

1 21. TERM. The term of this Agreement shall be for and during
2 the time that Unitized Substances can be produced in quantities suf-
3 ficient to pay for the cost of producing same from wells on Unitized
4 Land and for as long thereafter as drilling, reworking, or other
5 operations are prosecuted on Unitized Land without cessation of
6 more than ninety (90) consecutive days, and so long thereafter as
7 Unitized Substances can be produced as aforesaid, unless sooner
8 terminated by the Director as provided in Section 8, Successor Unit
9 Operator, or by the Working Interest Owners as provided in Section
10 22, Termination By Working Interest Owners.

11 22. TERMINATION BY WORKING INTEREST OWNERS. This Agreement
12 may be terminated at any time by Working Interest Owners owning 80%
13 eighty percent or more of the participation percentage in the
14 Unitized Land with the approval of the Supervisor. Notice of any
15 such termination shall be given by the Unit Operator to all parties
16 hereto.

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

20 If not specified otherwise by the leases unitized under
21 this Agreement, basic Royalty Owners hereby grant Working Interest
22 Owners a period of six (6) months after termination of this Agree-
23 ment in which to salvage, sell, distribute, or otherwise dispose of
24 the personal property and facilities used in connection with Unit
operations.

26 Unit Operator shall, within thirty (30) days after the
27 termination of this Agreement has been determined, pursuant to
28 Sections 8 and 22 hereof, file for record in the office or offices
29 where a counterpart of this Agreement is recorded, a certificate
30 setting forth the fact of such termination and the date thereof.

1 23. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The
2 Director is hereby vested with authority to alter or modify from time
3 to time in his discretion the quantity and rate of production under
4 this Agreement when such quantity and rate is not fixed pursuant to
5 Federal or State law or does not conform to any statewide voluntary
6 conservation or allocation program, which is established, recognized,
7 and generally adhered to by the majority of operators in such State,
8 such authority being hereby limited to alteration or modification in
9 the public interest, the purpose thereof and the public interest to
10 be served thereby to be stated in the order of alteration or modifi-
11 cation. Without regard to the foregoing, the Director is also
12 hereby vested with authority to alter or modify from time to time
13 in his discretion the rate of prospecting and development and the
14 quantity and rate of production under this Agreement when such alter-
15 ation or modification is in the interest of attaining the conservation
16 objectives stated in this Agreement and is not in violation of any
17 applicable Federal or State law.

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

21 24. APPEARANCES. Unit Operator shall, after notice to other
22 parties affected, have the right to appear for and on behalf of any
23 and all interests affected hereby before the Department of the In-
24 terior and to appeal from orders issued under the regulations of
25 said Department or to apply for relief from any of said regulations
26 or in any proceedings relative to operations before the Department
27 of the Interior or any other legally constituted authority; provided,
28 however, that any other interested party shall also have the right
29 at his own expense to be heard in any such proceeding.

1 25. NOTICES.... All notices, demands, or statements required
2 hereunder to be given or rendered to the parties hereto shall be
3 deemed fully given, if given in writing, or personally delivered to
4 the party or sent by postpaid registered or certified mail, addressed
5 to such party at the address such party has furnished to the party
6 sending the notice, demand, or statement.

7 26. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement
8 contained shall be construed as a waiver by any party hereto of the
9 right to assert any legal or constitutional right or defense as to
10 the validity or invalidity of any law of the State of New Mexico or
11 of the United States, or regulations issued thereunder in any way
12 affecting such party, or as a waiver by any such party of any right
13 beyond his or its authority to waive, provided, however, each party
14 hereto except the United States covenants that during the existence
15 of this Agreement, such party shall not resort to any action at law
16 or in equity to partition the Unitized Land or the facilities used
17 in the development or operation thereof and to that extent waives
18 the benefits of all laws authorizing such partition.

19 27. UNAVOIDABLE DELAY. All obligations under this Agreement,
20 except the payment of money, shall be suspended while, but only so
21 long as, the Unit Operator despite the exercise of due care and
22 diligence is prevented from complying with such obligations, in
23 whole or in part, by strikes, acts of God, Federal, State, or municipi-
24 pal law or agencies, unavoidable accidents, uncontrollable delays in
25 transportation, inability to obtain necessary materials in open
26 market, or other matters beyond the reasonable control of the Unit
27 Operator whether similar to matters herein enumerated or not.

1 28. NON-DISCRIMINATION. In connection with the performance
2 of work under this Agreement, the Unit Operator agrees to comply with
3 all the provisions of Section 202(1) to (7) inclusive, of Executive
4 Order 11246, 30 F.R. 12319, ^{as amended} which are hereby incorporated by reference
5 in this Agreement.

29. This paragraph not applicable.

1 30. LOSS OF TITLE. In the event title to any Tract of Unit-
2 ized Land shall fail and the true owner cannot be induced to join
3 in this Unit Agreement, such Tract shall be automatically regarded
4 as not committed hereto and there shall be such readjustment of
5 future costs and benefits as may be required on account of the loss
6 of such title. In the event of a dispute as to title as to any
7 Royalty, Working Interest, or other interests subject hereto,
8 payment or delivery on account thereof may be withheld without
9 liability for interest until the dispute is finally settled; pro-
10 vided that as to Federal land or leases, no payments of funds due
11 the United States should be withheld, but such funds shall be
12 deposited as directed by the Supervisor to be held as unearned
13 money pending final settlement of the title dispute, and then
14 applied as earned or returned in accordance with such final settle-
15 ment.

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

18 In order to avoid title failure which might incidentally
19 cause the title to a Working Interest or Interests to fail, the
20 owners of (2) the surface rights to land subject to this Agreement,
21 (b) severed minerals or Royalty Interests in said land, and (c)
22 improvements located on said lands but not utilized for Unit opera-
23 tions, shall individually be responsible for the rendition and
24 assessment, for ad valorem tax purposes, of all such property, and
25 for payment of such taxes, except as otherwise provided in any con-
26 tract or agreement between such owners and a Working Interest Owner
27 of Owners or in the Unit Operating Agreement. If any ad valorem
28 taxes are not paid by such owners responsible therefor when due,
29 the 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 non-payment. In the event the Unit Operator makes any
such payment or redeems any such property from tax sale, the Unit
Operator shall be reimbursed therefor by the Working Interest Owners
in proportion to their respective percentages of Unit Participation;
and the Unit Operator shall withhold from the proceeds otherwise
due to said delinquent taxpayer or taxpayers, an amount sufficient
to defray the costs of such payment or redemption, such withholdings
to be distributed among the Working Interest Owners in proportion to
their respective contributions toward such payment or redemption.

31. SUBSEQUENT JOINDER. After the effective date of this
Agreement, the commitment of any interest in any Tract within the
Unit Area shall be upon such equitable terms as may be negotiated
by Working Interest Owners and the owner of such interest. After
the effective date hereof, joinder by a Royalty Owner must be con-
sented to in writing by the Working Interest Owner committed hereto
and responsible for the payment of any benefits that may accrue
hereunder in behalf of such Royalty Interest. Joinder by any
Royalty Owner at any time must be accompanied or preceded by
appropriate joinder by the Owner of the corresponding Working
Interest in order for the interest to be regarded as effectively
committed. Joinder to the Unit Agreement by a Working Interest
Owner at any time must be accompanied by appropriate joinder to the
Unit Operating Agreement in order for the interest to be regarded
as committed to this Unit Agreement. Except as may otherwise herein
be provided, subsequent joinders to this Agreement shall be effective
as of the first day of the month following the filing with the Super-
visor of duly executed counterparts of all or any papers necessary to
establish commitment of any Tract to this Agreement unless objection
to such joinder is made within sixty (60) days by the Director.

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

10 In the event any of the parties hereto own both Working
11 Interests and Royalty Interests, as such interests are shown on
12 Exhibit "B", it shall not be necessary for such party to execute this
13 Agreement in both capacities in order to commit both classes of interest.
14 Execution hereof by any such party in one capacity shall also constitute
15 execution in the other capacity.

16 33. ROYALTY OWNERS' TAXES. Unless otherwise specifically pro-
17 vided by law, each Royalty Owner shall render and pay all ad valorem
18 taxes, including ad valorem taxes measured by production levied against
19 its royalty or mineral interest. Unit Operator shall pay, as an agent
20 for the Working Interest Owners, each Royalty Owner's share of all
21 taxes other than ad valorem taxes levied on or measured by the Unitized
22 Substances in and under, or that may be produced, gathered, and sold
23 from the lands subject hereto, or upon the proceeds or net proceeds
24 derived therefrom, and shall pay ad valorem taxes to the extent that
25 the same are made payable by law by any Working Interest Owner. Each
26 Working Interest Owner shall reimburse Unit Operator for taxes so paid
27 on its behalf and such Working Interest Owner shall make proportionate
28 deductions of said amounts in settling with its Royalty Owners in each
29 separately owned Tract. No such taxes shall be charged to the United
30 States or the State of New Mexico or to any lessor who has a contract
31 with his lessee which requires the lessee to pay such taxes.

1 34. NO PARTNERSHIP. It is expressly agreed that the relation
2 of the parties hereto is that of independent contractors and nothing
3 in this Agreement contained, expressed or implied, nor any operations
4 conducted hereunder, shall create or be deemed to have created a part-
5 nership or association between the parties hereto or any of them.

6 35. BORDER AGREEMENTS. Unit Operator, subject to the provisions
7 of the Unit operating agreement and subject to approval of the Super-
8 visor, may enter into an agreement or agreements with the Working
9 Interest Owners of adjacent lands with respect to operations designed
10 to increase the ultimate recovery of oil and/or gas from the Unitized
11 Formation, prevent waste, and protect the correlative rights of the
12 parties.

13 36. CORRECTION OF ERRORS. It is hereby agreed by all parties
14 to this Agreement that Unit Operator is empowered to correct any
15 mathematical or clerical errors which may exist in the pertinent
16 exhibits to this Agreement; provided, however, that correction of
17 any error other than mathematical or clerical shall be made by
18 Unit Operator only after first having obtained approval of Working
19 Interest Owners and the Supervisor. If any such corrections are
20 made, Unit Operator shall file not less than six (6) copies of the
21 corrected pages of this Agreement or of the Exhibits hereto with the
22 Supervisor; Unit Operator shall also provide, in conformance with
23 Section 25, Notices, such corrected pages to the parties hereto.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

Date:

July 27, 1989

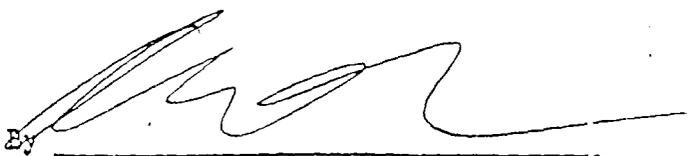
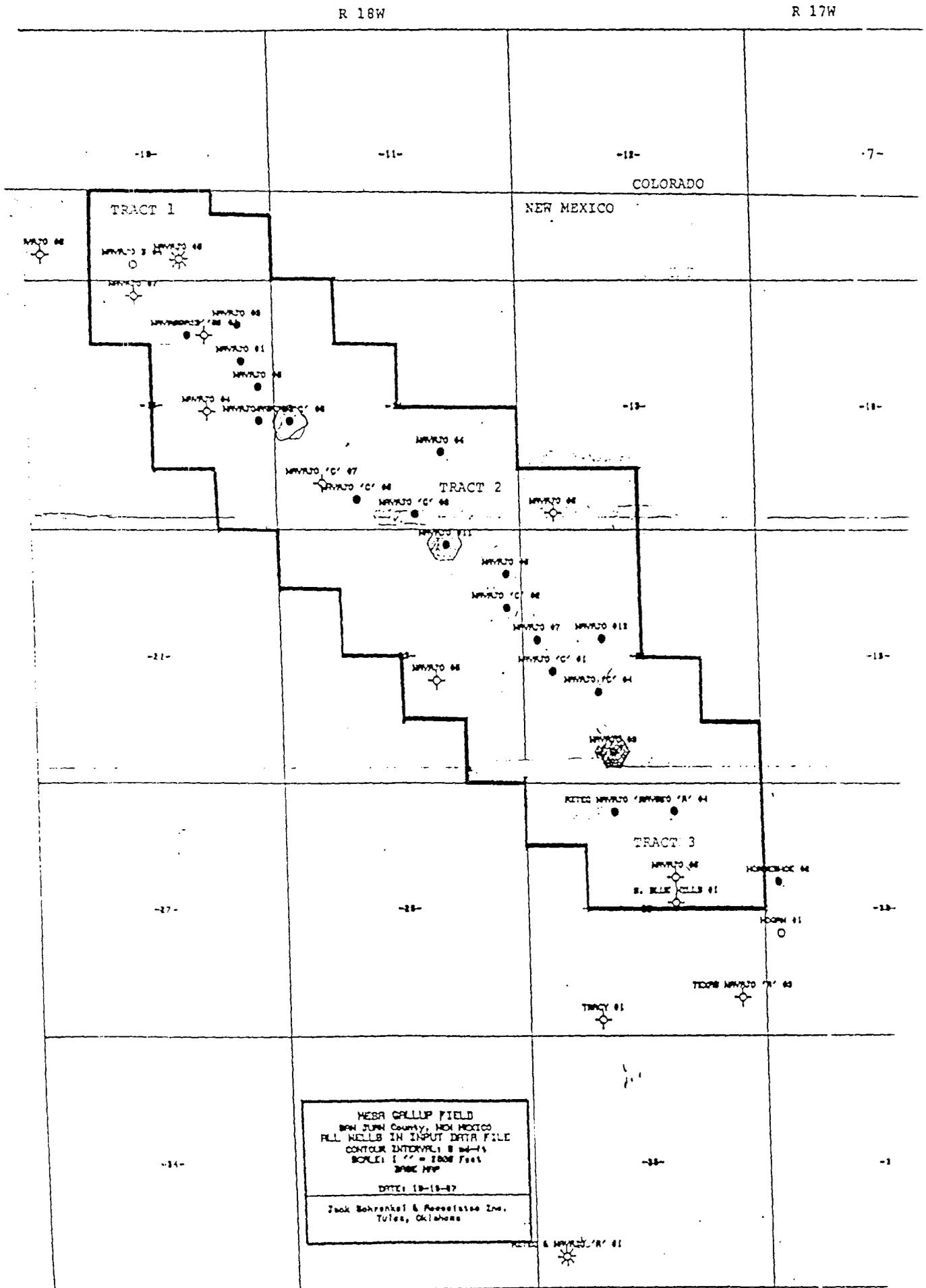
By 

EXHIBIT "A"
 PROPOSED UNIT BOUNDARY WATERFLOOD UNIT



MESA GALLUP FIELD
 Blaine County, NEW MEXICO
 ALL WELLS IN INPUT DATA FILE
 CONTOUR INTERVAL: 8' and 16'
 SCALE: 1" = 1000 Feet
 DATE: 10-18-87
 Jack Bohrenke & Associates Inc.
 Tulsa, Oklahoma

EXHIBIT "B"
SCHEDULE OF LANDS AND LEASES

TRACT NO.	DESCRIPTION	ACRES	SERIAL NO. EXPIRATION	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	WORKING INTEREST (OPERATING RIGHTS)		
							NAME	COST (DECIMAL)	PRODUCTION (DECIMAL)
1	S/2 SE/4, S/2 NWSE, SESW, S/2 NESW Sec. 10-32N-18W. NE, NENW, E/2 SE, NWSE Sec 15-32N-18W	480	1420603-583	12.5	Texas Pacific Oil Company	0	Ari-Mex	1.00	.875
2	S/2 SW/4 Sec 13-32N-18W. W/2 NW/4 SENW, S/2 Sec 14-32N 18W. NW, NE, SESE, N/2 SE, Sec 23-32N-18W. W/2, SESE, W/2 SE Sec 24-32N-18W.	1,360	1420603-584	12.5	21st Century Invsts Jack Schrenkel Grand Resources, Inc.	0	21st Century Invsts Jack Schrenkel Grand Resources, Inc.	67.5 25.0 7.5	.590625 .21875 .065625
3	NE, NW, NW, E/2 NW Sec 25-32N-18W	280	1149IND-7850	12.5	The Texaco Co.	.0273436	21st Century Invsts Jack Schrenkel Grand Resources, Inc.	67.5 25.0 7.5	.572168 .21191 .063574

EXHIBIT "C" (PAGE ONE)

** INTEREST IN EXPENSE (WORKING INTEREST) BY TRACTS ** 60% NET AP, 10% WELL, 30% CUM OIL **
 (& REVENUE INTEREST)

TRACT NUMBER	TRACT FACTOR	ARI-MEX EXPLORATION	21st Century INVESTMENTS	JACK SCHIRENKEL	GRAND RESOURCES	NAVAJO NATION	TEXAS
1	.1542615	.1542615	-	-	-	-	-
2	.7526852	-	.5080625	.1881712	.0564515	-	-
3	.0930533	-	.0628110	.0232633	.0069790	-	-
TOTAL	1.0000000	.1542615	.5708735	.2114345	.0634305	-	-
RI							
1	.1542615	.1349788	-	-	-	.0192827	-
2	.7526852	-	.4445545	.1646500	.0493951	.0940856	-
3	.0930533	-	.0532421	.0197193	.0059158	.0116317	.002
TOTAL	1.0000000	.1349788	.4977966	.1843693	.0553109	.1250000	.002