

UNIT AGREEMENT
FOR THE DEVELOPEMENT AND OPERATION OF THE
LANGLIE MATTIX WOOLWORTH UNIT
LEA COUNTY, NEW MEXICO

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Exhibit "A" (Map of Unit Area)

Exhibit "B" (Schedule of Ownership)

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
LANGLIE MATTIX WOOLWORTH UNIT
LEA COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 24th day of March, 1961, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto,"

WITNESSETH: THAT,

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interest in the Unit subject to this Agreement; and

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

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

WHEREAS, the parties hereto hold sufficient interest in the Langlie Mattix Woolworth Unit covering the land hereinafter described to give reasonably effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary recovery operations, conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the area subject to this Agreement under the terms, conditions and limitations herein set forth.

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

SECTION 1. ENABLING ACT AND REGULATIONS: The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid, pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder and valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this Agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this Agreement.

SECTION 2. UNIT AREA AND DEFINITIONS: For the purposes of this Agreement, the following terms and expressions as used herein shall mean:

(a) "Unit Area" is defined as those lands shown on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area; the lands initially shown in said Exhibit "A" and described in Exhibit "B" as:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

LEA COUNTY, NEW MEXICO

Township 24 South, Range 37 East,

Section 27: All
Section 28: All
Section 33: All
Section 34: All

and containing 2,559.48 acres, more or less.

(b) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.

(c) "Director" is defined as the Director of the United States Geological Survey.

(d) "Secretary" is defined as the Secretary of the Interior of the United States of America.

(e) "Department" is defined as the Department of the Interior of the United States of America.

(f) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey.

(g) "Langlie Mattix zone" is defined as and shall mean that underground reservoir regardless of the depth or thickness established by the Commission as the Langlie Mattix Oil Pool and defined as the lower 100 feet throughout the entire Unit Area of the Seven Rivers formation and all of the Queen formation. The Langlie Mattix zone is found between the subsurface depths of 3,170 feet and 3,510 feet in the Continental Oil Company, Jack B-27 No. 7 located in the SE/4 of the SE/4 of Section 27, Township 24 South, Range 37 East, N.M.P.M.

(h) "Unitized Formation" is defined as the Langlie Mattix zone underlying the lands effectively committed to this Agreement.

(i) "Unitized Substances" is defined as and shall mean all of the oil and gas contained in or produced from the Unitized Formation on and after the effective date hereof.

(j) "Usable Well" is defined as and shall mean a cased well which, on the effective date of this Agreement, is classified by the Commission as a completion in the Langlie Mattix Oil Pool.

(k) "Current Production" is defined as the oil produced from the Langlie Mattix zone in the Unit Area during the period from June 1, 1959 through November 30, 1959, as such production was reported to the Commission.

(l) "Cumulative Production" is defined as the oil produced from the Langlie Mattix zone in the Unit Area through November 30, 1959, as such production was reported to the Commission.

(m) "Working Interest" is defined as 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 held.

(n) "Working Interest Owner" is defined as and shall mean any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in the 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 operation thereof hereunder.

(o) "Royalty Interest" or "Royalty" is defined as 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 profit contracts, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(p) "Royalty Owner" is defined as and shall mean the owner of a Royalty Interest.

(q) "Unit Operating Agreement" is defined as and shall mean an agreement entered into by and between the Working Interest Owners as provided in Section 9, infra, and styled "Unit Operating Agreement, Langlie Mattix Woolworth Unit, Lea County, New Mexico," or any amendments thereof.

(r) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells on the unitized land.

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

SECTION 3. EXHIBITS: Exhibit "A" attached hereto is a map showing, to the extent known to the Unit Operator, the Unit Area and the boundaries and identity of tracts and leases in said Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each tract, percentage ownership of each Working Interest Owner in each tract, and the percentage of participation each tract has in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes herein provided for render such revision necessary, and not less than six copies thereof shall be filed with the Supervisor.

SECTION 4. EXPANSION: The above described Unit Area may when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this Agreement. Such expansion shall be effected in the following manner:

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

(b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the unit participation to be assigned to such tract or tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if eighty-five (85%) per cent of the Working Interest Owners (on the basis of final unit participation) have agreed to such tract or tracts being brought into the Unit, then Unit Operator shall:

(1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit

Area, the reason therefor, the basis for admission of the additional tract or tracts, the unit participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice; and

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

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above and provided that objections of owners owning not more than fifteen (15%) per cent of the Working Interest on the basis of final phase participation have been filed thereto, with the Director and the Commission following: (a) comprehensive statements as to mailing said notice of expansion; (b) an application for such expansion; and (c) an instrument containing the appropriate joinders as to the additional tract or tracts to be committed in compliance with the participation requirements of Section 13, infra.

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

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All Unitized Substances, as hereinabove defined, in all of the hereinabove described and subsequently admitted land effectively committed to this Agreement, insofar only as the same may be found in the Langlie Mattix zone, together with the surface rights of ingress and egress, are unitized under the terms of this Agreement and said land shall constitute land referred to herein as "Unitized Land" or "Land Subject to this Agreement."

Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Langlie Mattix zone.

SECTION 6. UNIT OPERATOR: Amerada Petroleum Corporation, a Delaware corporation, is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 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 written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and Director, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator may be subject to removal by seventy-five (75%) per cent of the committed Working Interest Owners (on the basis of current Unit participation) exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Director.

In all such instances of effective resignation or removal, until

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

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in the Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books and records, materials, appurtenances and any other assets, used in conducting the Unit operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly approved successor Unit Operator or to the Unit Manager 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. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder for any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 3. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator by a majority vote of the Working Interest Owners (on the basis of current Unit participation), provided no Working Interest Owner who has been

Unit Operator and who has been removed may vote for self succession. 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 Director. If no successor Unit Operator or Unit Manager is selected and approved as herein provided, the Director, at his election, may declare this Agreement terminated.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT:

Costs and expenses incurred by Unit Operator in conducting Unit operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Three true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Supervisor, prior to approval of this Agreement.

SECTION 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 which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to

transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect the greatest 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 and the Supervisor, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil or any one or more other substances whether produced from the Unit Area or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Supervisor periodical injection and production reports for each well in the Unit. The Working Interest Owners and the Supervisor, shall be furnished periodical reports on the progress of the plan of operation and any revisions or changes thereto; provided, however, such other methods of operation as may from time to time be determined by Working Interest Owners to be feasible, necessary or desirable to efficiently and economically increase the ultimate recovery of Unitized Substances may be conducted by Working Interest Owners. Nothing herein

contained shall prevent the Working Interest Owners from discontinuing or changing in whole or in part any particular method of operation if, in their opinion, such method of operation is no longer economically feasible or in accord with good engineering or production practices.

The initial plan of operation shall be filed with the Supervisor concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation shall be as complete and adequate as the Supervisor may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligation of the approved plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence secondary recovery operations on the Unit Area within six (6) months after the effective date of this Agreement and approval of the initial plan of operation by the Supervisor, or any extension thereof approved by the Director, or this Agreement shall terminate automatically, in which latter event Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 12. PARTICIPATION: In Exhibit "B", attached hereto, there are listed and numbered the various tracts within the Unit Area and set forth opposite each tract is a figure which represents the percentage of participation allocated to each tract in the Unit Area calculated on a one hundred (100%) per cent commitment. The participation percentage of each tract was determined as follows:

(a) Initial period participation:

$$\begin{aligned} \text{Percentage} \\ \text{Participation} &= 50 \frac{(\text{Tract Current Production})}{(\text{Unit Area Current Production})} \quad \text{plus} \\ \text{of Each Tract} & \\ & 25 \frac{(\text{Tract Acreage})}{(\text{Unit Area Acreage})} \quad \text{plus} \quad 25 \frac{(\text{Tract Usable Wells})}{(\text{Unit Area Usable Wells})} \end{aligned}$$

The period of initial participation shall begin at 7:00 A.M. on the effective date of this Agreement and terminate as of 7:00 A.M. on the first day of the calendar month following the month in which 250,000 barrels of oil has been produced and saved from the Unitized Formation after January 1, 1961.

(b) Final period of participation:

$$\begin{aligned} \text{Percentage} \\ \text{Participation} &= 33\text{-}1/3 \frac{(\text{Tract Acreage})}{(\text{Unit Area Acreage})} \quad \text{plus} \quad 33\text{-}1/3 \frac{(\text{Tract Usable Wells})}{(\text{Unit Area Usable Wells})} \\ \text{of Each Tract} & \\ & \text{Plus } 33\text{-}1/3 \frac{(\text{Tract Cumulative Production})}{(\text{Unit Area Cumulative Production})} \end{aligned}$$

The period of final phase participation shall commence upon termination of the initial phase participation, and continue until termination of this Agreement.

Notwithstanding the inclusion of the participation formula, the participation factors of the tracts as shown in Exhibit "B" shall be adopted as true, correct, and accurate, and not subject to change except only to the extent as may be required in the event some uncommitted tract is eliminated from the Unit.

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof the tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances therefrom shall be those tracts within the Unit Area and more particularly described in said Exhibit "B" which corner, adjoin, or are contiguous to each other that are qualified as follows:

(a) Each tract as to which Working Interest Owners owning one hundred (100%) per cent of the working interest have signed or ratified this Agreement and Royalty Owners owning seventy-five (75%) per cent or more of the royalty interest have signed or ratified this Agreement; and

(b) Each tract as to which Working Interest Owners owning one hundred (100%) per cent of the working interest have signed or ratified this Agreement and Royalty Owners owning less than seventy-five (75%) per cent of the royalty interest have signed or ratified this Agreement, and as to which (i) all Working Interest Owners in such tract join in a request for the inclusion of such tract in the Unit Area, and further as to which (ii) Working Interest Owners owning eighty-five (85%) per cent in all tracts which meet the requirements of the preceding subparagraph (a) vote in favor of the inclusion of such tract. For the purpose of this subparagraph (b) the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) which the total of such Working Interest Owner's final unit participation attributable to the tracts which qualify under subparagraph (a) bears to the total of the final unit participation of all Working Interest Owners attributable to all tracts which qualify under said subparagraph (a); and

(c) Each tract as to which Working Interest Owners owning less than one hundred (100%) per cent of the working interest have signed or ratified this Agreement, regardless of the percentage of royalty interest therein that is committed hereto, and as to which (i) the Working Interest Owner who operates the tract and all of the other subscribing Working Interest Owners in such tract have joined in a request for inclusion of such tract in the Unit Area and have executed and delivered an indemnity agreement acceptable to the other Working Interest Owners in the Unit Area indemnifying and agreeing to hold such parties harmless from and against all claims and demands that may be made by the nonsubscribing working interest owners in such tract on account of the inclusion of the same in the Unit Area, and further as to which (ii) Working Interest Owners owning eighty-five (85%) per cent of the final participation in all tracts which meet the requirements of subparagraphs (a) and (b) above, vote in favor of the inclusion of such tract. For the purposes of this subparagraph (c) the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) which the total of such Working Interest Owner's final unit participation attributable to tracts which qualify under subparagraphs (a) and (b) bears to the total final unit participation of all Working Interest Owners attributable to all tracts which qualify under said subparagraphs (a) and (b).

(d) In no event, however, shall the Unit Area include less than all of those tracts initially described and referred to in Exhibits "A" and "B" hereof unless such action be approved by the vote of the Working Interest Owners owning eighty-five (85%) per cent of the final participation in such tracts which shall have qualified pursuant to subparagraphs (a), (b), and (c), above.

If, on the effective date of this Agreement, there is any tract or tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such tract or tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Supervisor, file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in the production from the Unit Area hereunder. Said schedule shall set forth opposite each such committed tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such tract which shall be computed according to the participation formula set out in Section 12 (Participation) above. This schedule of participation shall be a part of Exhibit "B" and upon approval thereof by the Supervisor shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is filed and approved by the Supervisor.

SECTION 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 with respect to the Unitized Formation for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidably lost) shall be apportioned among and allocated to the qualified committed tracts within the Unit Area in accordance with the respective

tract participation 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 tract, and only that amount, (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such tract), shall, for all intents, uses and purposes, be deemed to have been produced from such tract.

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

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

If the Working Interest and the Royalty Interest in any tract are divided with respect to separate parcels or portions of such tract and owned severally by different persons, the percentage participation assigned to such tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each tract shall be

delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on unitized land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 15 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unit Area currently as and when produced, then so long as such conditions continue, Unit Operator, for the account and at the expense of such party and in order to avoid curtailing the operation of the Unit Area, may sell or otherwise dispose of such production to itself or others on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such party shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator,

shall be responsible for the payment of all Royalty on the lease or leases and tracts contributed by it and received into the Unit, and each such party shall hold each other party hereto harmless against all claims, demands and causes of action for such Royalty on the lease or leases and tracts contributed by it and received into the Unitized land.

If, after the effective date of this Agreement, there is any tract or tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any tract or tracts within the Unit Area not committed hereto as of the effective date hereof but which are subsequently committed hereto or if any tract is excluded from the Unit Area as provided for in Section 29 (Loss of Title), the schedule of participation as shown in Exhibit "B", subject to Section 12 (Participation), shall be revised by the Unit Operator and distributed to the Working Interest Owners and the Supervisor to show the new percentage participation of all the then effectively committed tracts; and the revised schedule, upon approval by the Supervisor, shall govern all the allocation of production from and after the effective date thereof until a new schedule is filed and approved by the Supervisor.

SECTION 15. ROYALTY SETTLEMENT: The United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working

Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas, liquid petroleum gas, frac oil, or other such outside substances, obtained from lands not subject to this Agreement is introduced into the Unitized Formation, for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan approved pursuant to Section 11 (Plan of Operations), a like amount of gas, liquid petroleum gas, frac oil or other such outside substances, less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation, Royalty free as to dry gas but not as to the liquid hydrocarbons extracted therefrom, provided such withdrawal shall be pursuant to such conditions and formulae as may be prescribed or approved by the Supervisor; and provided further that such right of withdrawal shall terminate as of the effective date of termination of the Unit Agreement.

All Royalty due the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective tract or tracts committed hereto, in lieu of actual production from such tract or tracts.

Each Royalty Owner (other than the United States of America) that executes this Agreement represents and warrants that it is the owner of a

Royalty Interest in a tract or tracts within the Unit Area. If any Royalty Interest in a tract or tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

SECTION 16. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof, due under their leases. Rental or minimum royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 17. CONSERVATION: Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 18. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

SECTION 19. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions and provisions of all leases, subleases, and other contracts

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

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

(a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract subject to this Agreement, regardless of whether there is any development of any particular part or tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contracts by and between the parties hereto, or their respective predecessors in interest, or any of them.

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Supervisor or a duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and

gas which by its terms might expire prior to the termination of this Agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.

(e) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Sec. 17(b) of said Act of February 25, 1920, as amended by the Act of July 29, 1954, (68 Stat. 583, 585): "Any (Federal) lease hereafter committed to any such plan (unit) embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; Provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

SECTION 20. MATHEMATICAL ERRORS: It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the pertinent exhibits to this Agreement upon approval of the Supervisor.

SECTION 21. COVENANTS RUN WITH THE LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until 7:00 o'clock A.M. of the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or

transfer of Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until 7:00 o'clock A.M. of the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 22. EFFECTIVE DATE AND TERM: This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock A.M. of the first day of the month next following:

(a) The execution or ratification of this Agreement and the Unit Operating Agreement by Working Interest Owners owning a combined final unit participation of at least eighty-five (85%) per cent and the execution or ratification of this Agreement by Royalty Owners owning a combined interest of at least seventy-five (75%) per cent of the Royalty Interest based on final phase participation in said Unit Area; and

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

(c) The filing of at least one counterpart of this Agreement for record in the office of the respective county clerks of Lea County, New Mexico, by the Unit Operator; and provided, further, that if (a), (b), and (c) above are not accomplished on or before April 1, 1962, this Agreement shall ipso facto terminate on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined unit participation of at least eighty (80%) per cent, and the Working Interest Owners owning a combined final unit participation of at least eighty (80%) per cent committed to this Agreement have decided to extend said termination date for a period not to exceed six (6) months (hereinafter called "extended termination date"). If said termination date is so extended and (a), (b), and (c) are not accomplished on or before said extended termination date, this Agreement shall ipso facto terminate on said extended termination date and thereafter be of no further force or effect. For the purpose of this Section, ownership shall be computed on

the basis of final unit participation as determined from Exhibit "C" attached to the Unit Operating Agreement.

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

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

This Agreement may be terminated with the approval of the Director by Working Interest Owners owning eighty-five (85%) per cent final 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, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit operations.

SECTION 23. RATES OF PROSPECTING, DEVELOPMENT AND PRODUCTION:

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

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

SECTION 24. FAIR EMPLOYMENT: In connection with the performance of work on Federally owned lands under this Agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for

employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

The Unit Operator agrees to insert the foregoing provision in all sub-contracts hereunder, except sub-contracts for standard commercial supplies or raw materials.

SECTION 25. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Department, and the Commission, and to appeal from any order issued under the rules and regulations of the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Department, or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 26. NOTICES: All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 27. NO WAIVER OF CERTAIN RIGHTS: Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands

are located or the United States, or rules or regulations issued there-
under in any way affecting such party, or as a waiver by any such party
of any right beyond his or its authority to waive.

SECTION 28. UNAVOIDABLE DELAY: All obligations under this Agree-
ment requiring the Unit Operator to commence or continue secondary recovery
operations or to operate on or produce Unitized Substances from any of the
lands covered by this Agreement shall be suspended while, but only so long
as the Unit Operator, despite the exercise of due care and diligence, is
prevented from complying with such obligations, in whole or in part, by
strikes, acts of God, Federal, State or municipal law or agency, unavoidable
accident, uncontrollable delays in transportation, inability to obtain
necessary materials in open market, or other matters beyond the reasonable
control of the Unit Operator whether similar to matters herein enumerated
or not.

SECTION 29. LOSS OF TITLE: In the event title to any tract of
unitized land shall fail so as to render the tract inoperable under this
Agreement and the true owner cannot be induced to join this Unit Agreement,
such tract shall be automatically regarded as not committed hereto and there
shall be such readjustment of future costs and benefits as may be required
on account of the loss of such title. In the event of a dispute as to title
as to any Royalty, Working Interest, or other interest subject thereto,
payment or delivery on account thereof may be withheld without liability or
interest until the dispute is finally settled; provided, that as to Federal
land or leases, no payments of funds due the United States of America shall
be withheld, but such funds shall be deposited as directed by the Supervisor,

to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 30. NONJOINER AND SUBSEQUENT JOINER: Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder by the corresponding Working Interest Owner in order for the interest of such Royalty Owners 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 such interest to be regarded as effectively committed to this Unit Agreement.

Any oil or gas interest in the Langlie Mattix zone not committed hereto prior to submission of this Agreement to the Director for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 13 (Tracts Qualified for Unit Participation) hereof, at any time up to the effective date hereof on the same basis of participation as provided in said Section 13, by the owner or owners thereof, subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed however that from and after the effective date hereof the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by owners owning Eighty-five (85%) per cent of the Working Interest based upon final phase participation. Such joinder by

a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 A.M. as of the first day of the month following the filing with the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any tract or interest to this Agreement, unless objection to such joinder by the Director is duly made within sixty (60) days after such filing.

SECTION 31. COUNTERPARTS: This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

SECTION 32. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the

parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 33. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and 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 agree that all powers and authority vested in the Commission in and by any provisions of this Agreement are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

SECTION 34: LIMITATION OF APPROVALS. Notwithstanding anything herein contained to the contrary, if no Federal lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Department, the Secretary, the Director, or the Supervisor, and it

shall not be necessary to file any instrument hereunder with said officers or agencies unless and until Federal lands are so committed to this Agreement.

SECTION 35. RELATIONSHIP OF PARTIES: The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective, and nothing herein contained shall ever be construed to create an association, trust or impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

Nothing in this agreement shall be construed as providing, directly or indirectly, for any cooperative refining or joint sale or cooperative marketing of Unitized Substances.

It is understood and agreed that this Agreement shall never be construed as imposing upon any Royalty Owner any obligation to pay for any development or operating expense unless such Royalty Owner is obligated to pay for same by the terms of agreements existing before the execution of this Agreement.

Each Royalty Owner shall be entitled to all information in possession of Unit Operator to which such Royalty Owner is entitled by his existing agreement with any Working Interest Owner with the express stipulation that if, by reason of this Agreement, such information is not available, the nearest approximation or equivalent of such information shall be made available.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement

to be executed and have set opposite their respective names the date of execution.

ATTEST:

Assistant Secretary

Date _____

AMERADA PETROLEUM CORPORATION

By _____
President

UNIT OPERATOR AND WORKING INTEREST OWNER.

ATTEST:

Date _____

THE ATLANTIC REFINING COMPANY

By _____

ATTEST:

Date _____

CONTINENTAL OIL COMPANY

By _____

ATTEST:

Date _____

GULF OIL CORPORATION

By _____

ATTEST:

Date _____

HUMBLE OIL AND REFINING COMPANY

By _____

ATTEST:

Date _____

HUSKY OIL COMPANY

By _____

ATTEST:

Date _____

KENWOOD OIL COMPANY

By _____

ATTEST:

Date _____

PAN AMERICAN PETROLEUM CORPORATION

By _____

ATTEST:

Date _____

PHILLIPS PETROLEUM COMPANY

By _____

ATTEST:

Date _____

PRODUCING PROPERTIES, INC.

By _____

ATTEST:

Date _____

THE PURE OIL COMPANY

By _____

ATTEST:

Date _____

SCHERMERHORN OIL CORPORATION

By _____

ATTEST:

Date _____

SINCLAIR OIL AND GAS COMPANY

By _____

ATTEST:

Date _____

STANDARD OIL COMPANY OF TEXAS

By _____

ATTEST:

Date _____

THREE STATES NATURAL GAS COMPANY

By _____

WEIER DRILLING COMPANY

ATTEST:

By _____

Date _____

Date _____

Margaret B. Allen, Individually

Date _____

Joe Platt

Date _____

Julian E. Simon

THE RUFUS CLAY TRUSTS NO. 1, 2 AND 3

ATTEST:

By _____
Republic National Bank of Dallas,
Texas; and

Date _____

By _____
Margaret B. Allen

CO-TRUSTEES.

STATE OF _____)
) SS:
COUNTY OF _____)

On this _____ day of _____, 1961, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is the _____ President of REPUBLIC NATIONAL BANK OF DALLAS, TEXAS, CO-TRUSTEE OF THE RUFUS CLAY TRUSTS NO. 1, 2 AND 3, and that the seal affixed to said instrument is the corporation seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____, acknowledged said instrument to be the act and deed of said corporation.

WITNESS my hand and official seal the day and year first above written.

My commission expires:

Notary Public

STATE OF _____)
) SS:
COUNTY OF _____)

On this _____ day of _____, 1961, before me personally appeared MARGARET E. ALLEN, CO-TRUSTEE OF THE RUFUS CLAY TRUSTS NO. 1, 2, AND 3, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that she executed the same as her free act and deed.

WITNESS my hand and official seal the day and year first above written.

My commission expires:

Notary Public