

March 22, 1966

C E R T I F I C A T E

The undersigned, Vilas P. Sheldon, states that he is unit operator of the Old Loco Unit Agreement, said agreement being placed in the Eddy County Oil and Gas records at 9:45 a.m. August 25, 1965, in Book 159 commencing at page 117, and the said Vilas P. Sheldon further states that the Unit Agreement has been executed or ratified by all working interest owners and by all royalty owners and that a Certificate of Approval was executed by the Commissioner of Public Lands of the State of New Mexico on March 16, 1966.

By terms of the Unit Agreement in Section 23 thereof, said Unit shall become and will become effective as of 7:00 a.m. April 1, 1966.

  
Vilas P. Sheldon

STATE OF NEW MEXICO )  
                                  :  
COUNTY OF EDDY        )

The foregoing instrument was acknowledged before me this 22nd day of March, 1966, by Vilas P. Sheldon.

My commission expires:

8-8-68

  
Louise Daugherty  
Notary Public, Eddy County, New Mexico

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

**OLD LOCO UNIT  
EDDY COUNTY, NEW MEXICO**


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There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated March 1, 1964, which has been executed, or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, and 7-11-48, New Mexico Statutes Annotated, 1953 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said Agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 16th day of March, 19 66.

  
COMMISSIONER OF PUBLIC LANDS  
of the State of New Mexico

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE No. 3231  
Order No. R-2903

APPLICATION OF VILAS P. SHELDON  
FOR APPROVAL OF THE OLD LOCO UNIT  
AGREEMENT, ELDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on April 7, 1965, at Santa Fe, New Mexico, before Examiner Elvin A. Uts.

NOW, on this 6th day of May, 1965, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Vilas P. Sheldon asks approval of the Old Loco Unit Agreement covering 720 acres, more or less, of State lands described as follows:

ELDY COUNTY, NEW MEXICO  
TOWNSHIP 17 SOUTH, RANGE 29 EAST, NMMN  
Section 31: 3/2 SS/4  
Section 32: All

(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

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CASE No. 3211  
Order No. R-2903

IT IS THEREFORE ORDERED:

(1) That the Old Lease Unit Agreement is hereby approved.

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as raising or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico; that this order shall terminate upon the termination of said unit agreement; and that the unit operator shall notify the Commission immediately in writing of such termination.

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

JACK M. CAMPBELL, Chairman

CURTIS B. HAYE, Member

S E A L

A. L. PORTER, Jr., Notary & Secretary

ear/

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
OLD LOCO UNIT AREA  
COUNTY OF EDDY  
STATE OF NEW MEXICO

I N D E X

SECTION

1	Enabling Act and Regulations
2	Definitions
3	Exhibits
4	Expansion of Unit Area
5	Unitized Land and Unitized Substances
6	Unit Operator
7	Resignation or Removal of Unit Operator
8	Successor Unit Operator
9	Accounting Provisions and Unit Operating Agreement
10	Rights and Obligations of Unit Operator
11	Equipment and Facilities not Fixtures Attached to Realty
12	Plan of Further Development and Operation
13	Participation
14	Tracts Qualified for Participation
15	Allocation of Unitized Substances
16	Balancing of Production
17	Royalty Settlement
18	Rental Settlement
19	Conservation
20	Drainage
21	Leases and Contracts Conformed and Extended
22	Covenants Run With Land
23	Effective Date and Term
24	Appearances
25	Notices
26	No Waiver of Certain Rights
27	Unavoidable Delay
28	Loss of Title
29	Nonjoinder and Subsequent Joinder
30	Counterparts
31	Taxes
32	Conflict of Supervision
33	No Partnership
34	Border Agreements

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
OLD LOCO UNIT AREA  
COUNTY OF EDDY  
STATE OF NEW MEXICO

THIS AGREEMENT entered into as of the first day of March 1964, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H:

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

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

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

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Volume 9, Part 2, Chapter 65, Article 3, New Mexico Statutes, 1953 Annotated) to approve this agreement and the conservation provisions hereof; and

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

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

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

1. **ENABLING ACT AND REGULATIONS.** The oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this Agreement.

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

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

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

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

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

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

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

(g) "Unit Area" means the land shown on Exhibit A, and described by Tracts in Exhibit B, containing 720 acres; all lands herein committed to this agreement shall constitute lands referred to as unitized land or land subject to this agreement.

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

(i) "Unit Participation" means the sum of all Tract Participations or portions thereof which a party is entitled to receive. See Exhibits C-1 and C-2.

(j) "Unitized Formation" means the Grayburg and Lovington Formations, same being that heretofore established underground reservoir encountered in the drilling by Miller and Smith of its Texas Gulf State #1 well between the depths of 2350 and 2850 feet, which said well is located in the SW 1/4 of the NE 1/4 of Section 32, Township 17 South, Range 29 East, Eddy County, New Mexico.

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

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

(m) "Working Interest Owner" means any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, which interest is

chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and the operation thereof hereunder. The owner of oil and gas rights which are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

3. EXHIBITS. Attached hereto as Exhibit A is a map showing to the extent known to Unit Operator, the Unit Area and the boundaries and identity of Tracts and leases in said Unit Area. Attached hereto as Exhibit B is a schedule showing to the extent known to Unit Operator the acreage comprising each Tract and the ownership of each interest owner in each Tract. 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 being owned by such party. Attached hereto as Exhibit C is a schedule showing in Part I thereof the Tract Participation of each Tract in the Unit Area and in Part II thereof the Unit Participation of each Working Interest Owner. Said schedule shall become effective at 7:00 a.m. on the effective date of this agreement.

It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than correction of a mathematical or clerical error shall be made by Unit Operator only after first having obtained approval of Working Interest Owners and the Commissioner.

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

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

(a) Unit Operator, with concurrence of at least 75 per cent of the then Voting Interests and after preliminary concurrence, the Commissioner and the Commission, shall prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.



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

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

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

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

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

6. **UNIT OPERATOR.** VILAS P. SHELDON is hereby designated as the Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties of Unit Operator for the development and production of Unitized Substances as herein provided. Whenever reference is made herein to the "Unit Operator," such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such interest is owned by it.

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

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by affirmative vote of at least 75% of the Voting Interests. Such removal shall be effective upon notice thereof to the Commissioner.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interests in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the Unit operations owned by the Working Interest Owners to the new duly qualified successor Unit Operator, or to the owner thereof if no such new Unit Operator is elected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

8. **SUCCESSOR UNIT OPERATOR.** Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, the Working Interest Owners shall, by affirmative vote of at least 75 per cent of the Voting Interests, select a successor Unit Operator; provided, however, that should any Working Interest Owner own a Voting Interest of more than 25 per cent, the vote of said party shall not serve to disapprove the selection of a new Unit Operator approved by 80 per cent or more of the Voting Interests of the remaining Working Interest Owners and provided, further, that the Unit Operator shall not vote to succeed itself and its Voting Interest shall not be counted in a vote concerning its removal as the Unit Operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner may, at his election, declare this Unit Agreement terminated.

9. **ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.** All costs and expenses incurred by Unit Operator in conducting Unit operations hereunder shall be apportioned among, borne and paid by the Working Interest Owners, all in accordance with this agreement and the Unit Operating Agreement. The Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled

to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as they may agree upon. However, the Unit Operating Agreement shall not be deemed either to modify the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement; in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement shall be filed with the Commissioner.

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

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

12. PLAN OF FURTHER DEVELOPMENT AND OPERATION. It is recognized and agreed by the parties hereto that the object and purpose of this agreement is to formulate and to put into effect a secondary recovery project in order to effect the optimum recovery

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

13. PARTICIPATION. Exhibit C-1 shows the percentages of participation to which each Tract shall be entitled if all Tracts within the Unit Area are committed as of the effective date of this agreement (the qualifications necessary for inclusion of a Tract being set forth in Section 14 hereof). If less than all Tracts within the Unit Area are committed as of the effective date of this agreement, Unit Operator, with approval of the Working Interest Owners, as soon as practicable after the effective date of this agreement, shall file with the Commissioner and the Commission schedules of committed Tracts as of said effective date, which said schedules shall be designated "Revised Exhibit C-1 and considered for all purposes as a part of this agreement. Such revised Exhibit C-1 shall set forth opposite each such committed Tract the revised Tract Participation therefor (which shall be calculated by using the same Tract factors and formula which were used to arrive at the Tract Participation of each Tract as set out in Exhibit C-1 attached hereto, but applying the same only to the committed Tracts). Such revised Exhibit C-1 unless disapproved by the Commissioner

and the Commission within 30 days after filing, shall supersede, effective as of the effective date hereof, the Tract Participations set forth in Exhibit C-1 attached hereto until a further revision or revisions thereof is approved by the Commissioner and the Commission. The Tract Participations shown on Exhibit C-1 attached hereto, or as may be shown on the revised Exhibit C-1 as above provided, shall govern the allocation of Unitized Substances on and after the effective date of this Unit Agreement as set forth in Section 3 hereof, and until the allocation schedule is revised pursuant to this agreement and the revised Tract Participations are approved by the Commissioner and the Commission.

✓ 14. **TRACTS QUALIFIED FOR PARTICIPATION.** From the effective date hereof, the Tracts which shall be entitled to participation shall be those Tracts which are described in Exhibit B and which, at any time, are qualified as follows:

(a) Each Tract as to which Working Interest Owners owning 100% of the Working Interest therein have become parties hereto and as to which Royalty Owners owning 75% or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning 100% of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than 75% of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the qualification of such Tract, and

(ii) 80% of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of paragraph (a) hereof have voted in favor of qualifying such Tract.

For the purpose of this paragraph (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in per cent) which its aggregate Unit Participation in all Tracts qualifying under paragraph (a) bears to the total Unit Participation, as shown on Exhibit C-2 of all Working Interest Owners in all Tracts qualifying under paragraph (a).

(c) Each Tract as to which Working Interest Owners owning less than 100% of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is permitted hereto and, further, as to which:

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for qualification of such Tract and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners, their successors and assigns, against all claims and demands which may be made by the owners of Working Interests in such Tract who are not parties hereto and which arise out of the qualification of such Tract; and

(ii) 80% of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of paragraphs (a) and (b) have voted in favor of the qualification of such Tract and acceptance of the indemnity agreement.

For the purpose of this paragraph (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in per cent) which its aggregate Unit Participation in all Tracts qualifying under paragraphs (a) and (b) bears to the total Unit Participation, as shown on Exhibit C-2, of all Working Interest Owners in all Tracts qualifying under paragraphs

(a) and (b). Upon the qualification of such a Tract, the Unit Participation which would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, in proportion to their respective Working Interests in the Tract.

15. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for pressure maintenance) shall be apportioned among and allocated to the committed Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit C-1. The amount of Unitized Substances so allocated to each committed Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each such Tract shall be distributed among, or accounted for to, the parties 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 Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal force and effect. It is hereby agreed that production of Unitized Substances from any such committed Tract shall be allocated as provided herein regardless of whether oil or gas is being produced from any particular Tract committed hereto. If the Working Interests or the Royalty Interests in any Tract are divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participation of such Tract shall, in the absence of a recordable instrument among all owners fixing the division of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

16. BALANCING OF PRODUCTION. Unit Operator shall make a proper and timely gauge of all lease and other tanks located on each committed Tract in order to ascertain the amount of merchantable oil in such tanks above the pipe line connections, as of 7:00 a.m. on the effective date hereof. All Unitized Substances which are a part of the prior allowable of the well or wells from which the same were produced shall be and remain the property of the Working Interest Owners entitled thereto as if the Unit had not been formed and such Working Interest Owners shall promptly remove same. Any such Unitized Substances not so removed may be sold by the Unit Operator

for the account of such Working Interest Owners, subject to the payment of all royalty to Royalty Owners, ~~under the terms~~ and provisions of the applicable lease or leases and other contracts. All such Unitized Substances which are in excess of the prior allowable of the well or wells from which the same were produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any Tract is over-produced with respect to the allowable of the well or wells on that Tract and the amount of such over-production has been sold or otherwise disposed of, such over-production shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

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

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

free pursuant to such conditions and formulas as may be prescribed or approved by the Commissioner.

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

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

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

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

21. **LEASES AND CONTRACTS COMPOUND AND EXTENDED.** The terms, conditions and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons in the under lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Commissioner as to State leases shall by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

(b) Drilling and producing operations performed hereunder upon any Tract of unitized land will 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 the land therein embraced.

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

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons in and under lands, other than those of the United States, in lands committed to this agreement, 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, as to the land committed so long as such lease remains subject hereto.

(e) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such lease shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if Unitized Substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein, any such lease shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of Unitized Substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as Unitized Substances are produced in paying quantities from any portion of said lands.

22. **COVENANTS RUN WITH LAND.** The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer; and no assignment or transfer of any Royalty Interest shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, photostatic or certified copy of the instrument of transfer.

23. **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 calendar month next following the approval by the Commissioner.

There must be an execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners owning a combined Unit Participation of at least 80 percent, and the execution or ratification of the agreement by Royalty Owners owning a combined interest of at least 65 percent of the Royalty Interest, in said Unit Area.

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

Unit Operator shall, within thirty (30) days after the effective date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement became 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 and so long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated with the approval of the Land Commissioner and the Working Interest Owners owning 75 percent 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 just as if this agreement had never been entered into.

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

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

provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

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

26. **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 of New Mexico, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

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

28. **LOSS OF TITLE.** If any Tract of unitized land ceases to have sufficient Working Interest or Royalty Interest committed to this agreement to meet the conditions of Section 14 because of failure of title to any party hereto, such Tract shall be regarded as not committed hereto as of 7:00 a.m. on the first day of the calendar month in which such failure of title is finally determined; provided, however, that no such Tract shall be so regarded if same can be requalified under said Section 14 within ninety (90) days after the date on which such title failure was finally determined. If any such Tract cannot be so requalified, Unit Operator shall recompute the Tract Participation of each Tract of unitized land remaining subject to this agreement so that such Tract Participations shall remain in the same ratio one to another. Thereafter, Unit Operator shall revise Exhibits C-1 and C-2 conformably with such recomputation. Each such revised exhibit shall be effective at 7:00 a.m. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working

Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the Royalty Owner whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working or Royalty Interest, or other interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State land or leases, no payment of funds due the State of New Mexico shall be withheld, such funds of the State shall be deposited as directed by the Commissioner, all to be held as unearned money pending final settlement of the title dispute and then applied as earned or returned in accordance with such final settlement.

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

29. **NONJOINER AND SUBSEQUENT JOINER.** Any oil or gas interest within the Unit Area not committed hereto prior to the effective date of this agreement may thereafter be committed, upon compliance with the applicable provisions of this Section 31 and of Section 14 (**TRACTS QUALIFIED FOR PARTICIPATION**) by the owner or owners thereof subscribing or consenting to this agreement and, if such uncommitted interest is a working interest, by the owner of such interest also subscribing to the Unit Operating Agreement.

Such right of joinder subsequent to the effective date hereof shall be subject to such requirements or approvals and shall be upon such terms and conditions as may be agreed to by at least 65 per cent of the then Voting Interests of the Working Interest Owners, and approval by the Commissioner, with appropriate revisions of Exhibits C-1 and C-2, effective as of 7:00 a.m. on the first day of the calendar month next following such agreement by the Working Interest Owners.

After final approval of this agreement, joinder by a non-working interest owner must be consented to in writing by the Working Interest Owners committed hereto and responsible for the payment of any benefits which may accrue hereunder in behalf of such non-working interest.

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

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

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

32. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners or any of them shall be subject to any forfeiture, termination, or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator, Working Interest Owners, or any of them are hindered, delayed or prevented from complying therewith by reason of the failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the State of New Mexico in

and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject, in any case, to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

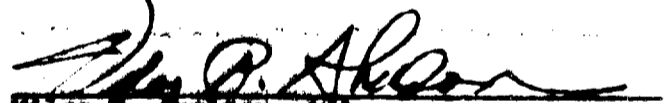
33. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, express or implied, or any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the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

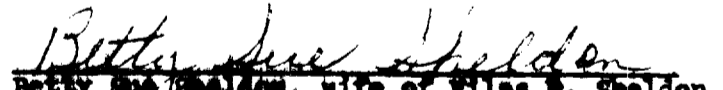
34. BORDER AGREEMENTS. Subject to the approval of the Commissioner, the Unit Operator, with concurrence of 75 per cent of the then Voting Interests of the Working Interest Owners, may enter into a border-protection agreement or agreements with the working interest owners of lands adjacent to the committed Tracts with respect to the operations in the border area for the maximum ultimate recover, conservation purposes and proper protection of the parties and interest.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

Date:

  
Vilas P. Sheldon, and

  
Betty Sue Sheldon, wife of Vilas P. Sheldon  
801 West Texas, Artesia, New Mexico

OTHER INTEREST OWNERS

Date:

  
R. D. Collier, and

  
Jimmy E. Collier, wife of R. D. Collier  
Artesia, New Mexico

Date:

*M. W. Smith*

M. W. Smith, individually; and as Executor of the Estate of F. D. Miller

*Mary J. Smith*  
Mary J. Smith      Wife of M. W. Smith

Date:

*Kathleen Miller*  
Kathleen Miller, ~~Executive of the Estate of F. D. Miller~~  
Albuquerque, New Mexico

STATE OF NEW MEXICO )  
                                  ) : ss  
COUNTY OF EDDY        )

On this 1st day of March 1964 before me personally appeared Vilas P. Sheldon and Betty Sue Sheldon, his wife, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

My commission expires:  
8-8-64

*Louise Daugherty*  
Notary Public

STATE OF NEW MEXICO )  
                                  ) : ss  
COUNTY OF EDDY        )

On this 1st day of March 1964 before me personally appeared R. D. Collier and Jimmy E. Collier, his wife, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

My commission expires:  
8-8-64

*Louise Daugherty*  
Notary Public

STATE OF NEW MEXICO )  
                                  ) : ss  
COUNTY OF BERNALILLO )

On this 14th day of May 1964 before me personally appeared M. W. Smith and Mary I. Smith, his wife, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

My commission expires: June 1, 1965

*Rosanne M. O'Bois*  
Notary Public

STATE OF NEW MEXICO )  
                                  ) : ss  
COUNTY OF BERNALILLO )

On this 14th day of May 1964 before me personally appeared Kathleen Miller 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.

My Commission expires: June 1, 1965

*Rosanne M. O'Bois*  
Notary Public

Neil B. Watson  
Neil B. Watson

Ruth A. Watson  
Ruth A. Watson

STATE OF NEW MEXICO )  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this 9th day of March, 1965 by Neil B. Watson and Ruth A. Watson, his wife.

My commission expires: 8-8-68

Louise Daugherty  
Notary Public

Harold Kersey

Harold Kersey, individually; and for Harold Kersey D&A Kersey and Company, acting as trustee under a Trustee Agreement dated 5-10-49 providing for the operation of the SE/4 SW/4 Section 32, Township 17 South, Range 29 East, for and in behalf of Harold Kersey, George M. Cowell, W. L. Shaner, Bethlehem Steel Company for the account of C. L. Tallmadge, P. J. Vidal, Thelma Methvin, Margaret Holcomb, Guy Shepherd, Benjamin D. Luchini, J. R. Butler, El Paso National Bank and G. D. Macy.

Mary Ellen Kersey

Mary Ellen Kersey

Thelma Methvin

Thelma Methvin

Margaret Holcomb

Margaret Holcomb

STATE OF NEW MEXICO )  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this 5 day of April 1965 by Harold Kersey, individually; and for Harold Kersey D&A Kersey and Company, acting as Trustee under a Trustee Agreement dated 5-10-49 providing for the operation of the SE/4 SW/4 Section 32, Township 17 South, Range 29 East, for and in behalf of Harold Kersey, George M. Cowell, W. L. Shaner, Bethlehem Steel Company for the account of C. L. Tallmadge, P. J. Vidal, Thelma Methvin, Margaret Holcomb, Guy Shepherd, Benjamin D. Luchini, J. R. Butler, El Paso National Bank and G. D. Macy. and was also acknowledged by Mary Ellen Kersey.

My commission expires: 10/10/66

Cecilia Grinnlan  
Notary Public

STATE OF NEW MEXICO )  
COUNTY OF OTERO )

The foregoing instrument was acknowledged before me this 1st day of April 1965 by Thelma Methvin.

My commission expires: 10/22/66

Dwight A. Ahlenger  
Notary Public

STATE OF NEW MEXICO )  
COUNTY OF OTERO )

The foregoing instrument was acknowledged before me this 1st day of April 1965 by Margaret Holcomb.

My commission expires: 10/22/66

Dwight A. Ahlenger  
Notary Public



**NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M. Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement which was executed by Vilas P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations: and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof. and

WHEREAS, the undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 30th day of March, 1965.

[Handwritten Signature]

[Handwritten Signature]

STATE OF )  
                  )  
COUNTY OF )

The foregoing instrument was acknowledged before me this 30th day of March, 1965 by [Signature]

My commission expires:

My Commission expires January 14, 1968

[Handwritten Signature]  
Notary Public

**NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement which was executed by Vilas P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 7<sup>th</sup> day of July, 1964.

ATTEST:

Maria Roney  
Notary Public

LEONARD OIL COMPANY

By

Robert J. Leonard  
President

STATE OF New Mexico )  
COUNTY OF Chaves )

The foregoing instrument was acknowledged before me this 7th day of July, 1964, by Robert J. Leonard President of Leonard Oil Company Corporation, on behalf of said corporation.

My commission expires:  
March 14, 1967

Maria Roney  
Notary Public

STATE OF )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_

My commission expires:

\_\_\_\_\_  
Notary Public

**UNDEVELOPED INTEREST OWNERS AGREEMENT**  
**IN UNIT AGREEMENT OLD LEASE UNIT, HADY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Lease Unit, Hady County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Hady County, New Mexico, as to the "Undivided Portion" as said term is defined in said Unit Agreement which was executed by Vilas P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

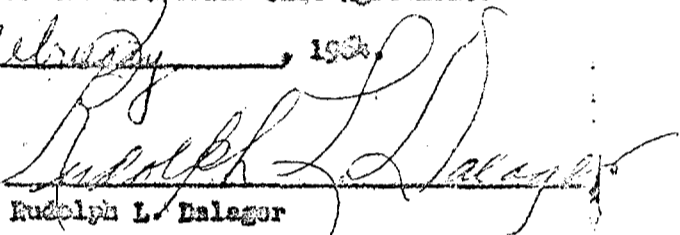
WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

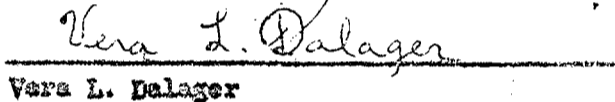
WHEREAS, the Undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW WHEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

WITNESSED this 26th day of February, 1964.

WITNESSED:

  
Rudolf L. Dalager

  
Vera L. Dalager

COUNTY OF \_\_\_\_\_ )  
CITY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_

of \_\_\_\_\_ Corporation, as behalf of said corporation.

NOTARY PUBLIC

Witnessed before me this \_\_\_\_\_ day of \_\_\_\_\_  
by Rudolf L. Dalager and Vera L. Dalager

Notary Public

**NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled Unit Agreement, Old Loco Unit, Eddy County, New Mexico, providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the Unit of Formation as said term is defined in said Unit Agreement which was executed by Vilas F. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the Undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 13th day of July, 1964.

ATTEST:

\_\_\_\_\_

\_\_\_\_\_  
P. J. Vidal  
*P. J. Vidal*  
\_\_\_\_\_  
Lucille Vidal  
*Lucille Vidal*  
\_\_\_\_\_

STATE OF New Mexico )  
                                  )  
COUNTY OF McKinley )

The foregoing instrument was acknowledged before me this 13th day of July, 1964, by P. J. Vidal and Lucille Vidal of \_\_\_\_\_ Corporation, on behalf of said corporation.

My commission expires: \_\_\_\_\_  
NOTARY PUBLIC

STATE OF New Mexico )  
                                  )  
COUNTY OF McKinley )

The foregoing instrument was acknowledged before me this 13th day of July, 1964, by P. J. Vidal and Lucille Vidal

My commission expires: \_\_\_\_\_  
*Ben J. McKee*  
\_\_\_\_\_  
Notary Public

My Commission expires August 1, 1965.

**NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.F.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement which was executed by Vilas P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 11<sup>th</sup> day of February, 1964.

ATTEST:

Leta C. Crouch

O. H. Randel

O. H. Randel

Clarice A. Randel

Clarice A. Randel

J. N. Hightower

J. N. Hightower

Margaret Hightower

Margaret Hightower

STATE OF New Mexico )  
COUNTY OF Eddy )

The foregoing instrument was acknowledged before me this 11<sup>th</sup> day of February, 1964, by O. H. Randel of \_\_\_\_\_ a \_\_\_\_\_ corporation, on behalf of said corporation.

My commission expires:

Notary Public

STATE OF New Mexico )  
COUNTY OF Eddy )

The foregoing instrument was acknowledged before me this 11<sup>th</sup> day of February, 1964 by O. H. Randel and Clarice A. Randel

My commission expires:

August 12, 1964

Leta C. Crouch  
Notary Public

STATE OF New Mexico )  
COUNTY OF Eddy )

The foregoing instrument was acknowledged before me this 8<sup>th</sup> day of March, 1965 by J.N. and Margaret Hightower.

**NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, S.M.F.M., Eddy County, New Mexico, as to the Unitized Formation as said term is defined in said Unit Agreement which was executed by Viles P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this \_\_\_\_\_ day of \_\_\_\_\_, 1964.

ATTEST:

George M. Cowell  
George M. Cowell  
Irene Cowell  
Irene Cowell

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_ of \_\_\_\_\_ a \_\_\_\_\_ corporation, on behalf of said corporation.

My commission expires:

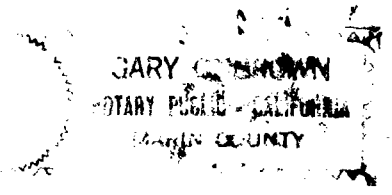
\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964 by George M. Cowell and Irene Cowell

My commission expires:

\_\_\_\_\_  
Notary Public



NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M. Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement which was executed by Vilas P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 30th day of March, 1965

*Vilas P. Sheldon*  
*John J. Sheldon*

STATE OF NEW MEXICO )  
COUNTY OF Chavez )

The foregoing instrument was acknowledged before me this 30th day of March, 1965, by Allen J. and Marsha J. Sheldon.

My commission expires:

*Allen M. Porter*  
Notary Public

**NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled Unit Agreement, Old Loco Unit, Eddy County, New Mexico, providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the Unfractured Formation as said term is defined in said Unit Agreement which was executed by Viles P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 10th day of November, 1964.

ATTORNEYS:

Donald Brown  
Donald Brown

Merle D. Brown  
Merle D. Brown

SEALS OF )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_ of \_\_\_\_\_ corporation, on behalf of said corporation.

My commission expires:

Notary Public

STATE OF New Mexico )  
COUNTY OF Eddy )

The foregoing instrument was acknowledged before me this 10th day of November, 1964 by Donald Brown & Merle D. Brown

My commission expires:

Notary Public



**NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement which was executed by Vilas P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 5th day of November, 1964.

HUMBLE OIL & REFINING COMPANY

ATTEST:

By:

C. M. Carothers

AGENT AND ATTORNEY-IN-FACT

FORM APPROVED

BY

[Signature]

STATE OF Texas )  
COUNTY OF Midland )

The foregoing instrument was acknowledged before me this 5th day of November, 1964, by C. M. Carothers AGENT AND ATTORNEY-IN-FACT of Humble Oil Refining Company a Texas corporation, on behalf of said corporation.

My commission expires: June 1, 1965

Evelina Edwards  
Notary Public  
EVALINA EDWARDS Notary Public  
MIDLAND COUNTY, TEXAS

STATE OF )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964 by \_\_\_\_\_

My commission expires:

\_\_\_\_\_  
Notary Public

NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement which was executed by Vilas P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 25 day of March 1965, ~~1964~~

ATTEST:

KERR-McGEE OIL INDUSTRIES, INC.

[Signature]  
Ass't. - Secretary

By [Signature]  
Vice-President

STATE OF OKLAHOMA )  
COUNTY OF OKLAHOMA )

The foregoing instrument was acknowledged before me this 25 day of March, 1965, by [Signature] Vice-President of Kerr-McGee Oil Industries, Inc. a Delaware corporation, on behalf of said corporation.

My Commission Expires: October 16, 1966

[Signature]  
Notary Public

STATE OF )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1963, by \_\_\_\_\_

My commission expires:

Notary Public

NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement which was executed by Vilas P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 27 day of March, 1964.

ATTEST:

*[Signature]*  
Secretary

TEXAS GULF MINERALS COMPANY

By *[Signature]*  
President

STATE OF TEXAS )  
COUNTY OF HARRIS )

The foregoing instrument was acknowledged before me this 27th day of March, 1964, by L. S. Reed, President

of Texas Gulf Minerals Company

a Delaware Corporation, on behalf of said corporation.

My commission expires:  
June 1, 1965.

*[Signature]*  
Notary Public in and for Harris County, Texas.

MARY H. SOUTHWICK  
Notary Public in and for Harris County, Texas  
My Commission Expires June 1, 1965

STATE OF )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_

My commission expires:

\_\_\_\_\_  
Notary Public

NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico, providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 23 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation", as said term is defined in said Unit Agreement which was executed by Viles P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

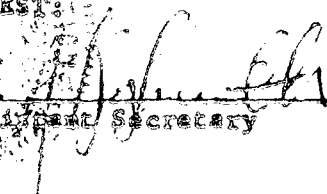
WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-Working Interest Owner is the successor to the interests set out in said Unit Agreement of Texas Gulf Minerals Company, and in such capacity desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

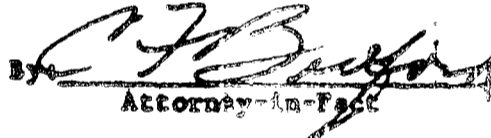
NOW, THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 27 day of October, 1965.

ATTEST:

  
Assistant Secretary

PAN AMERICAN PETROLEUM CORPORATION

By   
Attorney-in-Fact

APPROVED  


STATE OF TEXAS  
COUNTY OF TARRANT

The foregoing instrument was acknowledged before me this 27 day of

October, 1965, by A. F. BROWN

Attorney-in-Fact of PAN AMERICAN PETROLEUM CORPORATION, a Delaware Corporation, on behalf of said corporation.



  
THORA PRATER  
NOTARY PUBLIC  
in and for TARRANT County, TEXAS

MY COMMISSION EXPIRES:

6-1-67

NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M. Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement which was executed by Vilas P. Sheldon as the Unit Operator to provide for conducting secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 15<sup>th</sup> day of April, 1965.

CONTINENTAL OIL COMPANY

FORM APPROVED

By [Signature] 7mzk  
ATTORNEY IN FACT ATTORNEY

WITNESSETH:

[Signature]  
ASSISTANT SECRETARY

STATE OF )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1965 by \_\_\_\_\_

My commission expires:

[Signature]  
Notary Public

STATE OF Texas )  
COUNTY OF Farrant )

The foregoing instrument was acknowledged before me this 15<sup>th</sup> day of

April, 1965, by R. L. ADAMS  
ATTORNEY IN FACT, of CONTINENTAL OIL COMPANY

a Delaware Corporation, on behalf of said corporation.

My commission expires: 6-1-65

[Signature]  
Notary Public

**NON-WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT OLD LOGS UNIT, SADDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Logs Unit, Saddy County, New Mexico", providing for the development and operation of 780 acres, more or less, in Township 17 North, Range 29 East, S.M.P.M., Saddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement which was executed by Villas P. Sheldon as the Unit Operator to provide for conduction secondary recovery operations; and

WHEREAS, said Unit Agreement provides for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Non-Working Interest Owner whose interests are defined in said instrument and exhibits thereto, desires to ratify and consent to said Unit Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Non-Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement.

EXECUTED this 31st day of August, 1965.

WITNESSES:

TENNECO OIL COMPANY

J. P. Roach  
J. P. ROACH  
AGENT AND ATTORNEY-IN-FACT

APPROVED	

WITNESSES  
[Signature]

STATE OF TEXAS )  
COUNTY OF MIDLAND )

The foregoing instrument was acknowledged before me this 31st day of August, 1965, by J. P. ROACH, AGENT AND ATTORNEY-IN-FACT of TENNECO OIL COMPANY a Private Corporation, on behalf of said corporation.

My commission expires:  
6-1-67

Jay D. Allison  
Notary Public

WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT AND UNIT OPERATING AGREEMENT

OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operating of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement, and a counterpart of an instrument entitled "Unit Operating Agreement, Old Loco Unit, Eddy County, New Mexico", both of which were executed by Vilas P. Sheldon as the Unit Operator and as a Working Interest Owner, to provide for conducting recovery operations; and

WHEREAS, said Unit Agreement and Unit Operating Agreement each provide for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Working Interest Owner whose interests are defined in said instruments and exhibits thereto, desires to ratify and consent to said Unit Agreement and Unit Operating Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW, THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement and Unit Operating Agreement.

EXECUTED THIS 30th day of March, 1965.

ATTEST:

\_\_\_\_\_

Roland McLean

Frances M. McLean

\_\_\_\_\_

\_\_\_\_\_

STATE OF Arizona )  
COUNTY OF Mohave )

The foregoing instrument was acknowledged before me this 30th day of March, 1965, by Roland McLean and Frances M. McLean

My commission expires:  
June 24, 1966

S. C. Roland  
Notary Public

WORKING INTEREST OWNERS JOINTLY  
IN UNIT AGREEMENT AND UNIT OPERATING AGREEMENT  
OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO


WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement, and a counterpart of an instrument entitled "Unit Operating Agreement, Old Loco Unit, Eddy County, New Mexico", both of which were executed by Wilas P. Sheldon as the Unit Operator and as a Working Interest Owner, to provide for conducting recovery operations; and

WHEREAS, said Unit Agreement and Unit Operating Agreement each provide for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Working Interest Owner whose interests are defined in said instruments and exhibits thereto, desires to ratify and consent to said Unit Agreement and Unit Operating Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW, THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement and Unit Operating Agreement.

WITNESSETH THIS 13 day of May, 1965.

  
*[Signature]*  
Assistant Secretary

Kincaid & Watson Drilling Company

*J. C. Watson*  
President

State of New Mexico )  
County of Eddy )

The foregoing instrument was acknowledged before me this 13 day of

May, 1965, by J. C. Watson, President of Kincaid & Watson Drilling

Company, a New Mexico Corporation.

My commission expires:

*[Signature]*  
Notary Public

June 9, 1965



WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT AND UNIT OPERATING AGREEMENT  
OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

WHEREAS, the undersigned has received a counterpart of an instrument entitled Unit Agreement, Old Loco Unit, Eddy County, New Mexico, providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement, and a counterpart of an instrument entitled "Unit Operating Agreement, Old Loco Unit, Eddy County, New Mexico", both of which were executed by Elias F. Sheldon as the Unit Operator and as a Working Interest Owner, to provide for conducting recovery operations; and

WHEREAS, said Unit Agreement and Unit Operating Agreement each provide for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Working Interest Owner whose interests are defined in said instruments and exhibits thereto, desires to ratify and consent to said Unit Agreement and Unit Operating Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW, THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement and Unit Operating Agreement.

EXECUTED this 17th day of MAY, 1965.

ATTEST:

DALEVA O'NEAL  
A PARTNER IN THE

A. O. Sheldon

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1965, by \_\_\_\_\_ of \_\_\_\_\_ Corporation, on behalf of said corporation.

My commission expires;

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1965, by \_\_\_\_\_

My commission expires;

\_\_\_\_\_  
Notary Public

**WORKING INTEREST OWNERS JOINTLY  
IN UNIT AGREEMENT AND UNIT OPERATING AGREEMENT  
OLD LOCO UNIT, BIRDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Birdy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Birdy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement, and a counterpart of an instrument entitled "Unit Operating Agreement, Old Loco Unit, Birdy County, New Mexico", both of which were executed by Elias P. Sheldon as the Unit Operator and as a Working Interest Owner, to provide for conducting recovery operations; and

WHEREAS, said Unit Agreement and Unit Operating Agreement each provide for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Working Interest Owner whose interests are defined in said instruments and exhibits thereto, desires to ratify and consent to said Unit Agreement and Unit Operating Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW, THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement and Unit Operating Agreement.

EXECUTED this 19th day of May, 1963.

ATTEST:

\_\_\_\_\_  
*R. L. Burrow*  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

STATE OF )

COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1963, by \_\_\_\_\_

of \_\_\_\_\_  
 a \_\_\_\_\_ corporation, on behalf of said corporation.

My commission expires:

\_\_\_\_\_  
 Notary Public

STATE OF New Mexico )

COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of May, 1963, by R. L. Burrow

\_\_\_\_\_  
*Charles B. Chiswick*  
 Notary Public

NOTARY PUBLIC

**WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT AND UNIT OPERATING AGREEMENT  
OLD LOGS UNIT, HEDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled Unit Agreement, Old Logs Unit, Heddy County, New Mexico, providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Heddy County, New Mexico, as to the Unitized Formation as said term is defined in said Unit Agreement, and a counterpart of an instrument entitled Unit Operating Agreement, Old Logs Unit, Heddy County, New Mexico, both of which were executed by Elaine E. Gordon as the Unit Operator and as a working interest owner, to provide for conducting recovery operations; and

WHEREAS, said Unit Agreement and Unit Operating Agreement each provide for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned working interest owner whose interests are defined in said instruments and exhibits thereto, desires to ratify and consent to said Unit Agreement and Unit Operating Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW, THEREFORE, in consideration of the promises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned working interest owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement and Unit Operating Agreement.

WITNESSED this 17TH day of JUNE, 1965

DURHAM DRILLING CO., INC.

ATTORNEY:

[Signature]  
ASST. SEC. - TREAS.

[Signature]  
PRESIDENT

TAXES OF TEXAS )  
COUNTY OF MIDLAND )

Said foregoing instrument was acknowledged before me this 17TH day of JUNE, 1965, by LYNN D. DURHAM, PRESIDENT of DURHAM DRILLING CO., INC. a TEXAS corporation, on behalf of said corporation.

My commission expires: JUNE 1, 1967

Notary Public  
VIRGINIA B. BYRNE

STATE OF TEXAS )  
COUNTY OF MIDLAND )

The foregoing instrument was acknowledged before me this 17TH day of JUNE, 1965, by

My commission expires:

Notary Public

**WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT AND UNIT OPERATING AGREEMENT  
OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement, and a counterpart of an instrument entitled "Unit Operating Agreement, Old Loco Unit, Eddy County, New Mexico", both of which were executed by Villas F. Sheldon as the Unit Operator and as a Working Interest Owner, to provide for conducting recovery operations; and

WHEREAS, said Unit Agreement and Unit Operating Agreement each provide for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Working Interest Owner whose interests are defined in said instruments and exhibits thereto, desires to ratify and consent to said Unit Agreement and Unit Operating Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW, THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement and Unit Operating Agreement.

EXECUTED THIS 8th day of March, 1965.

ATTEST:

Jeff M. Hickox  
Jeff M. Hickox

Lela H. Hickox  
Lela H. Hickox

John P. Cauhape, Jr.  
John P. Cauhape, Jr.

Gloria H. Cauhape  
Gloria H. Cauhape

State of New Mexico)  
County of Eddy )

The foregoing instrument was acknowledged before me this 8th day of March, 1965, by Jeff M. and Lela H. Hickox

My commission expires:

Louise Daugherty  
Notary Public

8-8-68

STATE OF NEW MEXICO)  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this 17th day of March, 1965, by John P. Cauhape, Jr. and his wife, Gloria H. Cauhape.

My commission expires:

Louise Daugherty  
Notary Public

8-8-68

WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT AND UNIT OPERATING AGREEMENT  
OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement, and a counterpart of an instrument entitled "Unit Operating Agreement, Old Loco Unit, Eddy County, New Mexico", both of which were executed by Vilas P. Sheldon as the Unit Operator and as a Working Interest Owner, to provide for conducting recovery operations; and

WHEREAS, said Unit Agreement and Unit Operating Agreement each provide for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Working Interest Owner whose interests are defined in said instruments and exhibits thereto, desires to ratify and consent to said Unit Agreement and Unit Operating Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW, THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement and Unit Operating Agreement.

EXECUTED THIS 30<sup>th</sup> day of March, 1965.

Charles W. Hicks  
Margie H. Hicks  
H. M. Marlow  
H. M. Marlow  
Mrs. Ada Marlow  
Ada Marlow

STATE OF New Mexico )  
COUNTY OF Chaves )

The foregoing instrument was acknowledged before me this 30th day of March, 1965, by Charles W. Hicks and Margie H. Hicks.

My commission expires: 2-6-68

Alvin M. Norton  
Notary Public

STATE OF New Mexico )  
COUNTY OF Eddy )

The foregoing instrument was acknowledged before me this 19th day of April, 1965, by H. M. Marlow and Ada Marlow.

My commission expires: 8-8-68

Louise Daugherty  
Notary Public

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WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT AND UNIT OPERATING AGREEMENT  
OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement, and a counterpart of an instrument entitled "Unit Operating Agreement, Old Loco Unit, Eddy County, New Mexico", both of which were executed by Vilas P. Sheldon as the Unit Operator and as a Working Interest Owner, to provide for conducting recovery operations; and,

WHEREAS, said Unit Agreement and Unit Operating Agreement each provide for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and,

WHEREAS, the undersigned Working Interest Owner whose interests are defined in said instruments and exhibits thereto, desires to ratify and consent to said Unit Agreement and Unit Operating Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW, THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement and Unit Operating Agreement.

EXECUTED this 26<sup>th</sup> day of March, 1965.

OLEN F. FEATHERSTONE II TRUST

By: Charles W. Hicks  
Charles W. Hicks, Co-Trustee

By: Harvey E. Roelofs  
Harvey E. Roelofs, Co-Trustee

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

The foregoing instrument was acknowledged before me this 26 day of March, 1965, by Charles W. Hicks, Co-Trustee for Olen F. Featherstone II Trust, acting in said capacity.

My Commission Expires: 12-31-68

Alex M. Norton  
Notary Public

STATE OF COLORADO )  
 ) ss.  
COUNTY OF DENVER )

The foregoing instrument was acknowledged before me this 3rd day of April, 1965, by Harvey E. Roelofs, Co-Trustee for Olen F. Featherstone II Trust, acting in said capacity.

My Commission Expires: April 12, 1965

Simon Oltmann  
Notary Public

# EXHIBIT 'A'

## OLD LOGO UNIT, EDDY CO.

2" = 1 mile      720 Acres      100% State Land

Jan. 1, 1964

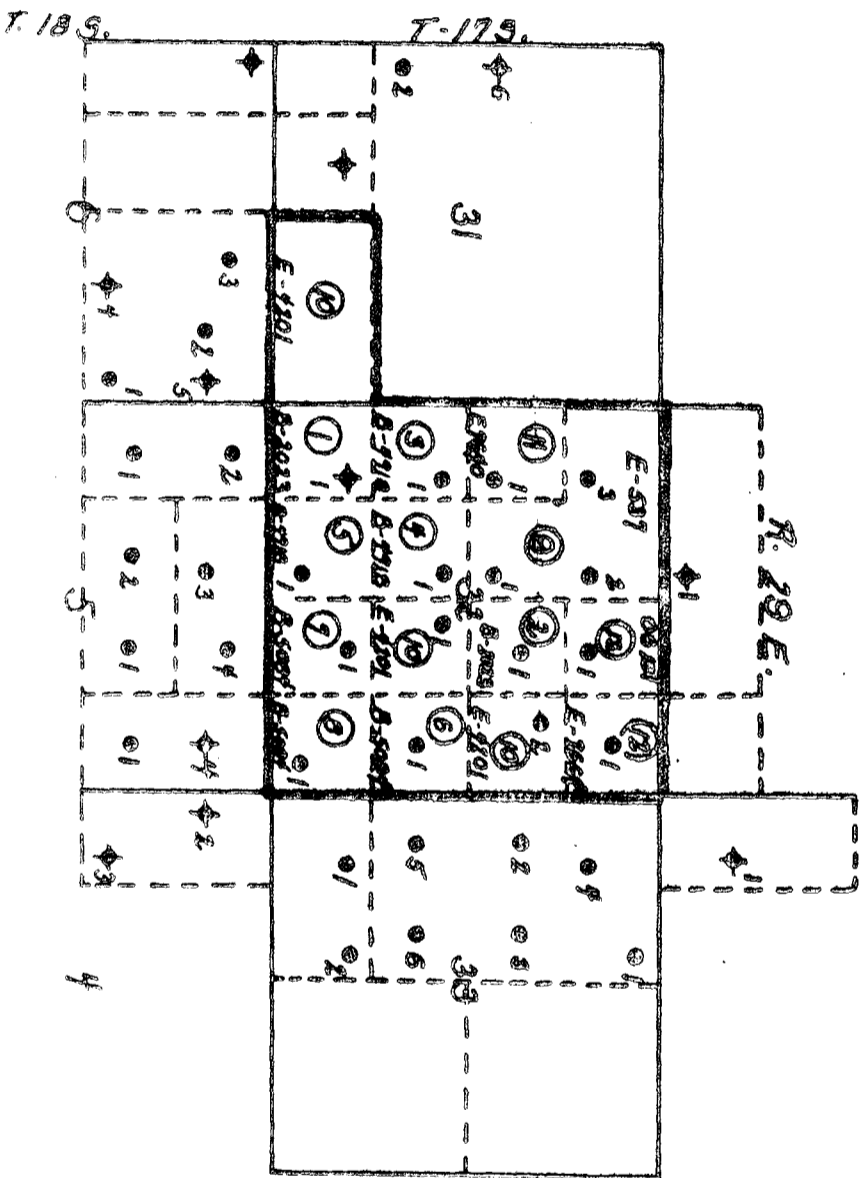


EXHIBIT B TO UNIT AGREEMENT  
 OLD LOCO UNIT, HINDY COUNTY, NEW MEXICO  
 Revised April 1, 1966

Tract	Description	Acres	Serial No. and Lease Date	Basic Royalty	Lessee of Record	Overriding Royalty	Working Interest Owner and Percentage	Working Interest Percent Participation of Tract in Unit
1	SW/4 SW/4 32-17-29	40	D-2023 7-10-33	1/8th	Emerson Oil Co	Pan American Petr'l Corp. 1/16	Harold Hursey R D COLLIER 50%	2.39
2	SW/4 NW/4 32-17-29	40	D-2023 7-10-33	1/8th	Pan Am Petr'l Corp	Pan Am Petr'l Corp 1/16	Harold Hursey	10.80
3	NW/4 SW/4 32-17-29	40	D-4918 9-10-35	1/8th	Geo M. Cowell	Geo M Cowell 1/16 Harold Hursey 1/32	R D COLLIER	2.55
4	NW/4 SW/4 32-17-29	40	D-4918 9-10-35	1/8th	Miller & Smith	O H Randall P J Vidal 1/16 5%	Harold Hursey	4.57
5	NW/4 SW/4 32-17-29	40	D-4918 9-10-35	1/8th	Harold Hursey	none	Harold Hursey Geo M. Cowell 16.18% V L Shumer 11.99% Bethlehem SteelCo 10.47% P. J. Vidal 9.06% Thelem Mathvin 7.59% Margaret Holcomb 7.59% Guy Shepherd 2.26% Benjamin D Luckini 2.26% J R Butler 1.14% El Paso Int'l Bank 1.14%	12.97
6	NW/4 SE/4 32-17-29	40	D-5084 10-10-35	1/8th	P J Vidal	P J Vidal 7/64	R D COLLIER	11.38
7	SW/4 SE/4 32-17-29	40	D-5084 10-10-35	1/8th	Miller & Smith	J V Eichman R L Delagar 1/16	Harold Hursey	14.39
8	SE/4 SE/4 32-17-29	40	D-5084 10-10-35	1/8th	Olan P Featherstone	O P Featherstone Geo M Cowell 9/128 1/16	Harold Hursey Roland Nelson 12.50% Thelem Mathvin 4.17% Margaret Holcomb 4.17% O P Featherstone II 12.50% Charles Hicks 12.50%	7.85
9	NW SW, NW NW, SE NW 32-17-29	120	D-537	1/8th	Burr McGee Oil Industries, Inc	Burr McGee Margaret Hightower 1/8 1/64	Bell B Watson R D COLLIER Josh P Cauthape Jr 1/16 11/16 4/16	11.20



10	S/2 SE/4 SE NE, NW SE	31-17-29 32-17-29	160	E-4201	9-11-50	1/8th	Continental Oil	Vilas P Sheldon Conoco	1/24th 1/4	<del>Harold Jersey</del> R D Collier	50% 50%	12.00
11	SW/4 NW/4	32-17-29	40	E-7640	12-15-53	1/8th	Tenneco Oil Co	Tenneco Oil	1/16th	Jeff M Hickox R D Collier R M Marlow	1/15 12/15 3/15	2.39
12	NE/4 NE/4	32-17-29	40	E-7664	12-15-53	1/8th	Miller & Smith	Donald Brown	1/16	Harold Jersey	100%	4.09
13	NW/4 NE/4	32-17-29	40	CG-181	9-18-56	1/8th	Rumble Oil & Refining Co	Rumble Oil & Refining Co	1/8	Durham Drilg Co R L Burrow Palermo Oils Kincaid & Watson	50% 9% 8% 33%	3.42

\* OGR is 1/8th when production is above 20 BOPD  
 \*\* OGR is 1/8th when production is above 25 BOPD  
 \*\*\* Collier 9/16th interest subject to Oil Payment (Valley Steel Co.) payable out of 1/8th of V. I. Oil  
 \*\*\*\* Cowell OGR 1/16 when production is 10 BOPD or over, 5% when production is 5 BOPD and up to 10 BOPD, and 1/32 when production is less than 5 BOPD; OGR on gas 1/16th  
 \*\*\*\*\* OGR to Vilas P. Sheldon entirely out of Jersey 50% working interest portion; (However, the Sheldon OGR is 1/24th of total tract 10)

SCHEDULE C  
 OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

Revised April 1, 1966

PART I

TRACT PARTICIPATION

<u>Tract No.</u>	<u>Percentage</u>
1	2.39
2	10.80
3	2.55
4	4.57
5	12.97
6	11.38
7	14.39
8	7.85
9	11.20
10	12.00
11	2.39
12	4.09
13	3.42
	<hr/>
	100.00

PART II

WORKING INTEREST OWNER PARTICIPATION

<u>Owner</u>	<u>Percentage</u>
Harold Kersey - Successor to Miller & Smith and Vilas P. Sheldon	41.045000
R. D. Collier	30.617500
Neil B. Watson	.700000
John P. Cahape, Jr.	2.800000
Jeff M. Hickox	.149375
H. M. Marlow	.448125
Durham Drilling Co., Inc	1.710000
R. L. Burrow	.307800
Daleveco Oils	.273500
Kincaid and Watson	1.128500
Charles Hicks	.981250
Harold Kersey	4.251560
Olen F. Featherstone II	.981250
Thelma Methvin	.327345
Margaret Holcomb	.327345
Roland McLean	.981250
Harold Kersey - Trustee for Tract #5	12.970000
W. L. Shaner	11.99%
Bethlehem Steel Co. (Account of C. L. Tallmadge)	10.47%
P. J. Vidal	9.06%
Guy Shepherd	2.28%
Benjamin D. Luchini	2.28%
J. R. Butler	1.14%
El Paso National Bank	1.14%
George M. Cowell	16.18%
Harold Kersey	30.30%
Thelma Methvin	7.58%
Margaret Holcomb	7.58%
	<hr/>
	100.000000

*Oil Conservation Commission*

UNIT OPERATING AGREEMENT  
OLD LOCO UNIT  
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 4th day of February, 1964, by and between the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof:

W I T N E S S E T H :

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled, 'Unit Agreement, Old Loco Unit, Eddy County, New Mexico', herein referred to as 'Unit Agreement', which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area as therein defined:

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement.

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

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

2.1.4 Exhibit E, attached hereto, which contains insurance provisions applicable to Unit Operations.

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

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

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

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

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

BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION
EXHIBIT NO. <u>2</u>
CASE NO. <u>723-252</u>

3.2.3 Well Rec Completions and Change of Status. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Five Hundred Dollars (\$500.00); provided that, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is Twenty-five Hundred Dollars (\$2,500.00) or more.

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

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

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator,
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, and
- (c) be made upon not less than thirty (30) days' written notice to Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit D.

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

3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.11 The removal of Unit Operator and the selection of a successor.

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

#### ARTICLE 4

##### MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of two (2) or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows;

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Participation.

4.3.2 Vote Required. Except as may otherwise be provided herein or in the Unit Agreement, Working Interest Owners shall act upon and determine all matters coming before them by the affirmative vote of three or more Working Interest Owners having a total of sixty percent (60) or more of the total voting interest in the unit; provided that if any one Working Interest Owner has a voting interest of more than forty percent (40%), its negative vote or failure to vote shall not defeat the matter being voted on if such matter is supported by a majority of the voting interest unless such Working Interest Owner is supported by the vote of one or more other Working Interest Owners having a total voting interest of at least five percent (5%), and such resulting vote shall be binding on all parties.

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote either by written proxy or by letter or telegram addressed to the representative of the Unit Operator, provided such letter or telegram is received prior to the submission of such item to vote. If the vote is by letter or telegram such vote shall not be counted with respect to any item on the agenda which has been materially changed at the meeting.

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

## ARTICLE 5

### INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

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

## ARTICLE 6

### UNIT OPERATOR

6.1 Initial Unit Operator. Vilas P. Sheldon is hereby designated as Unit Operator.

6.2 Resignation. Unit Operator may resign at any time. A Unit Operator that resigns shall not be released from its obligations hereunder for a period of three (3) months after the resignation unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners.

## ARTICLE 7

### AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area free from all liens and encumbrances occasioned by Unit Operations, except the lien of Unit Operator granted hereunder.

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

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

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

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

7.8 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of the log and other engineering and geological data pertaining to wells drilled for Unit Operations; Provided, however, that Unit Operator may when reasonable charge the cost of gathering and furnishing such data to the Working Interest Owner requesting such information if such is in addition to that normally supplied.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Five Hundred Dollars (\$500.00) without prior approval of Working Interest Owners; however, initially Unit Operator is hereby authorized to proceed with installation and expenditure as set forth on the "Initial Cost Estimate and Authorization" signed simultaneously with this Unit Operating Agreement. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

## ARTICLE 8

### TAXES

8.1 Ad Valorem Taxes. Unit Operator, beginning the first of the next calendar year after the effective date hereof, shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account in the same manner as other costs and expenses of Unit Operations.

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

## ARTICLE 9

### INSURANCE

9.1 Insurance. Unit Operator with respect to Unit Operations, shall carry such insurance as set forth in Exhibit E.

## ARTICLE 10

### ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells and Casing. All wells completed in the Unitized Formation, together with the casing therein.

10.1.2 Well and Lease Equipment. The tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used solely in the operation of such wells.

10.1.3 Records. A copy of all production and well records that pertain to such wells.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall inventory and evaluate, under the supervision of Unit Operator and at Unit Expense, all personal property so taken over. Such inventory shall be limited, however, to those items of equipment normally considered controllable by operators of oil and gas properties as indicated in the "Materials Classification Manual", dated 1960, prepared by the Petroleum Accountants Society of Oklahoma, subject to any exceptions for specific items as agreed to by Working Interest Owners. Noncontrollable items, although excluded from the inventory, shall nevertheless be taken over by Unit Operator as provided in Section 10.1 hereof. The personal property listed on the inventories shall be evaluated on the price basis described in Exhibit D except that no value shall be given to the casing in any well.

10.3 Investment Adjustment. Each Working Interest Owner shall be credited with the value of its interest in all personal property taken over under Section 10.1.2, and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Secondary Phase Participation as shown in Exhibit C. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

## ARTICLE 11

### UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and the Unit Agreement. Working Interest Owners shall reimburse Unit Operator for all capital expenditures, costs of development of the Unit Area and purchases of Outside Substances, installation costs, development costs of water supply, water wells, injection wells, water stations and subsequent workovers, repair or remedial work undertaken with respect to unit owned wells, whether water or oil producing, or water injection wells, and all such reimbursement shall be made in proportion to the respective Participation of the parties hereto. Working Interest Owners shall reimburse Unit Operator for all operating expenses including administrative overhead in proportion to their respective participations. All charges, credits, invoicing and accounting shall be in accordance with Exhibit D hereof.

11.2 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit

Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

**11.3 Lien of Unit Operator.** Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, its share of Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of Unit Expense, together with the interest thereon at the rate of six percent (6%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default.

**11.4 Unpaid Unit Expense.** If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. The Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by the Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expenses shall be subrogated to the lien and rights herein granted Unit Operator.

## ARTICLE 12

### NON-UNITIZED FORMATIONS

**12.1 Right to Operate.** Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals, from other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent unreasonable interference with Unit Operations. The Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

## ARTICLE 13

### TITLES

**13.1 Warranty and Indemnity.** Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth for each Tract opposite its name in Exhibit B, and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; provided that, such indemnity shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

**13.2 Failure Because of Unit Operations.** The failure of title to any Working Interest in any Tract by reason of Unit Operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

## ARTICLE 14

### LIABILITY

**14.1 Individual Liability.** The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein



contained shall ever be construed as creating a partnership of any kind, joint venture, association or trust among Working Interest Owners.

## ARTICLE 15

### INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Each Working Interest Owner hereby elects that it and the operations covered by this agreement be excluded from the application of Subchapter K of Chapter 1 of Sub-Title A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such additional or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to applicable state laws, regulations, and rulings now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

## ARTICLE 16

### ABANDONMENT OF WELLS

16.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the equipment in and on the well except the casing therein if contributed by such Working Interest Owners under Section 10.1.1. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

## ARTICLE 17

### EFFECTIVE DATE AND TERM

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

17.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 16, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

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

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

17.3.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the casing and equipment in and on the wells taken over, (except the casing contributed by such Working Interest Owners under

Section 10.1.1 hereof) as estimated by Working Interest Owners, and by agreeing to plug properly each well at such time as it is abandoned.

17.3.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned properly.

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

ARTICLE 18

EXECUTION

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

ARTICLE 19

SUCCESSORS AND ASSIGNS

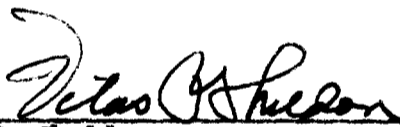
19.1 Successors and Assigns. The provisions hereof shall be covenants running with the lands, leases, and interests covered hereby, and shall be binding upon and inure to the benefit of the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto.

ARTICLE 20

BORDER LINE AGREEMENTS

20.1 Border Line Agreements. Unit Operator is expressly authorized to negotiate and execute cooperative agreements covering injection wells and rates of injection in wells situated near the unit boundary lines, provided, however that Unit Operator has received approval of the Working Interest Owners.

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

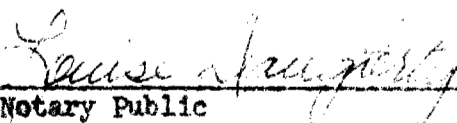
  
Vilas P. Sheldon

  
Betty Sue Sheldon

STATE OF NEW MEXICO )  
                                  )  
COUNTY OF EDDY        )

The foregoing instrument was acknowledged before me this 4th day of February, 1964, by Vilas P. Sheldon and Betty Sue Sheldon, his wife.

My commission expires:  
August 8, 1964

  
Notary Public

*R. D. Collier*  
R. D. Collier

*Jimmie E. Collier*  
Jimmie E. Collier

STATE OF NEW MEXICO )  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this 4th day of February 1964 by R. D. Collier and Jimmie E. Collier, his wife.

My commission expires: 8-8-64

*Louise Daugherty*  
Notary Public

*Neil B. Watson*  
Neil B. Watson

*Ruth A. Watson*  
Ruth A. Watson

STATE OF NEW MEXICO )  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this 9th day of March, 1965, by Neil B. Watson and Ruth A. Watson, his wife.

My commission expires: 8-8-68

*Louise Daugherty*  
Notary Public

M. W. Smith, individually; and as  
Executor of the Estate of P. D. Miller

Smith, wife of M. W. Smith

Kathleen Miller

STATE OF NEW MEXICO )  
COUNTY OF BERNALILLO )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_ 1965, by M. W. Smith, individually; and as Executor of the Estate of P. D. Miller; and by \_\_\_\_\_ Smith, wife of M. W. Smith.

My commission expires:

Notary Public

STATE OF NEW MEXICO )  
COUNTY OF BERNALILLO )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_ 1965, by Kathleen Miller.

My commission expires:

Notary Public

Harold Kersey  
Harold Kersey, Individually; and for Harold Kersey  
DBA Kersey and Company, acting as Trustee under a  
Trustee Agreement dated 5-10-49 providing for the  
operation of the SE/4 SW/4 Section 32, Township 17  
South, Range 29 East, for and in behalf of Harold  
Kersey, George M. Cowell, W. L. Shaner, Bethlehem  
Steel Company for the account of C. L. Tallmudge,  
P. J. Vidal, Thelma Methvin, Margaret Holcomb,  
Guy Shepherd, Benjamin D. Luchini, J. R. Butler,  
and El Paso National Bank

Mary Ellen Kersey  
Mary Ellen Kersey

Thelma Methvin  
Thelma Methvin

Margaret Holcomb  
Margaret Holcomb

STATE OF NEW MEXICO )  
                              :  
COUNTY OF EDDY        )

Before me personally appeared Harold Kersey; Individually, and for Harold Kersey DBA Kersey and Company, acting as Trustee under a Trustee Agreement dated 5-10-49 providing for the operation of the SE/4 SW/4 Section 32, Township 17 South, Range 29 East, for and in behalf of Harold Kersey, George M. Cowell, W. L. Shaner, Bethlehem Steel Company for the account of C. L. Tallmudge, P. J. Vidal, Thelma Methvin, Margaret Holcomb, Guy Shepherd, Benjamin D. Luchini, J. R. Butler, and El Paso National Bank; and Mary Ellen Kersey who executed the foregoing instrument this 5<sup>th</sup> day of April, 1965.

My commission expires: 11/12/66

Craig L. Primavera  
Notary Public

STATE OF NEW MEXICO )  
                              :  
COUNTY OF OTERO        )

The foregoing instrument was acknowledged before me this 1<sup>st</sup> day of April 1965 by Thelma Methvin.

My commission expires: 10/22/66

Daught A. Obinger  
Notary Public

STATE OF NEW MEXICO )  
                              :  
COUNTY OF OTERO        )

The foregoing instrument was acknowledged before me this 1<sup>st</sup> day of April 1965 by Margaret Holcomb.

My commission expires: 10/22/66

Daught A. Obinger  
Notary Public

**WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT AND UNIT OPERATING AGREEMENT  
OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operation of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement, and a counterpart of an instrument entitled "Unit Operating Agreement, Old Loco Unit, Eddy County, New Mexico", both of which were executed by Vilas P. Cahape as the Unit Operator and as a Working Interest Owner, to provide for conducting recovery operations; and

WHEREAS, said Unit Agreement and Unit Operating Agreement each provide for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Working Interest Owner whose interests are defined in said instruments and exhibits thereto, desires to ratify and consent to said Unit Agreement and Unit Operating Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW, THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement and Unit Operating Agreement.

EXECUTED THIS 8th day of March, 1965.

ATTEST:

Jeff M. Hickox  
Jeff M. Hickox

Lela H. Hickox  
Lela H. Hickox

John P. Cahape, Jr.  
John P. Cahape, Jr.

Gloria H. Cahape  
Gloria H. Cahape

State of New Mexico)

County of Eddy )

The foregoing instrument was acknowledged before me this 8th day of March, 1965, by Jeff M. and Lela H. Hickox

My commission expires:

8-8-68

STATE OF NEW MEXICO)

COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this 17th day of March, 1965, by John P. Cahape, Jr. and his wife, Gloria H. Cahape.

My commission expires:

8-8-68

Louise Daugherty  
Notary Public

**WORKING INTEREST OWNERS JOINDER  
IN UNIT AGREEMENT AND UNIT OPERATING AGREEMENT  
OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO**

WHEREAS, the undersigned has received a counterpart of an instrument entitled "Unit Agreement, Old Loco Unit, Eddy County, New Mexico", providing for the development and operating of 720 acres, more or less, in Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to the "Unitized Formation" as said term is defined in said Unit Agreement, and a counterpart of an instrument entitled "Unit Operating Agreement, Old Loco Unit, Eddy County, New Mexico", both of which were executed by Vilas P. Sheldon as the Unit Operator and as a Working Interest Owner, to provide for conducting recovery operations; and

WHEREAS, said Unit Agreement and Unit Operating Agreement each provide for counterpart execution and by other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned Working Interest Owner whose interests are defined in said instruments and exhibits thereto, desires to ratify and consent to said Unit Agreement and Unit Operating Agreement by the execution of this instrument, agreeing to be bound by the provisions thereof.

NOW, THEREFORE, in consideration of the premises, and of the mutual advantages to be secured by all who become parties to said instrument, the undersigned Working Interest Owner does by these presents agree to be bound by and does expressly ratify and consent to all of said terms and provisions of the aforesaid Unit Agreement and Unit Operating Agreement.

EXECUTED THIS 30th day of March, 1965.

ATTEST:

Roland McLean

Frances M. McLean

STATE OF Arizona )  
COUNTY OF Mohave )

The foregoing instrument was acknowledged before me this 30th day of March, 1965, by Roland McLean and Frances M. McLean

My commission expires:  
June 24, 1966

J. C. Roland  
Notary Public

SCHEDULE C  
 OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

March 15, 1965

PART I

TRACT PARTICIPATION

<u>Tract No.</u>	<u>Percentage</u>
1	2.39
2	10.80
3	2.55
4	4.57
5	12.97
6	11.58
7	14.59
8	7.85
9	11.20
10	12.00
11	2.39
12	4.09
13	2.42
	<hr/>
	100.00

PART II

WORKING INTEREST OWNER PARTICIPATION

<u>Owner</u>	<u>Percentage</u>
Vilas P. Sheldon	7.195000
R. E. Collier	30.617500
Miller and Smith	35.850000
Neil B. Watson	.700000
John P. Cauhape, Jr.	2.800000
Jeff M. Rickox	.149375
H. M. Marlow	.448125
Kincaid & Watson & Associates	3.420000
Charles Hicks	.981250
Harold Kersey	4.251560
Olen F. Featherstone II	.981250
Thelma Methvin	.327345
Margaret Holcomb	.327345
Roland McLean	.981250
Harold Kersey - Trustee for Tract #5	12.970000
W. L. Shaner	11.99%
Bethlehem Steel Co. (account of C. L. Tallmudge)	10.47%
P. J. Vidal	9.06%
Guy Shepherd	2.28%
Benjamin D. Luchini	2.28%
J. R. Butler	1.14%
El Paso National Bank	1.14%
George M. Cowell	16.18%
Harold Kersey	30.30%
Thelma Methvin	7.58%
Margaret Holcomb	7.58%

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100.000000

EXHIBIT "E"

Attached to and made a part of Unit Operating Agreement covering Old Loco Unit, Eddy County, New Mexico

INSURANCE

In the development and operation of the subject properties, Operator shall carry the following insurance:

- (A) Workmen's Compensation Insurance in accordance with the Laws of the State of New Mexico, and Employer's Liability Insurance in a minimum amount of \$100,000.00.
- (B) Comprehensive General Public Liability Insurance; In minimum amounts of \$150,000.00 for injuries to each person and \$300,000.00 for each accident with the exception of the first \$5,000.00 of loss, which is self-insured by the parties hereto, and \$200,000.00 in the aggregate.
- (C) Automobile Liability Insurance in minimum amounts of \$150,000.00 for each person and \$300,000.00 for each accident, and Property Damage in the minimum amount of \$100,000.00 for each accident.

Each of Operator's aforesaid policies are written to automatically include all non-operators, under properties operated by Operator, as additional insured, whether or not such Non-Operators are specifically named.

The self-insured property damage loss incident to each accident shall be charged to the joint account.

No other insurance shall be carried by the Operator for the benefit of the joint account.



**EXHIBIT " D "**

PASO-T-1955-2

Attached to and made a part of **OLD LOCO UNIT OPERATING AGREEMENT**

**ACCOUNTING PROCEDURE  
(UNIT AND JOINT LEASE OPERATIONS)**

**I. GENERAL PROVISIONS**

**1. Definitions**

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

**2. Statements and Billings**

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Subparagraph **B** below:

- A. Statement in detail of all charges and credits to the joint account.
- B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
- C. Statements as follows:
  - (1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;
  - (2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
  - (3) Detailed statement of any other charges and credits.

**3. Payments by Non-Operator**

Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

**4. Adjustments**

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this Section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

**5. Audits**

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

**II. DEVELOPMENT AND OPERATING CHARGES**

*Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:*

**1. Rentals and Royalties**

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

**2. Labor**

- A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.
- B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

**3. Employee Benefits**

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

**4. Material**

Material, equipment, and supplies purchased or furnished by Operator for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

**5. Transportation**

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

- A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

**6. Service**

A. Outside Services:

The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:

Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

**7. Damages and Losses to Joint Property and Equipment**

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

**8. Litigation Expense**

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

**9. Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

**10. Insurance and Claims**

A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

**11. District and Camp Expense (Field Supervision and Camp Expense)**

~~A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's office located at or near (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of these and any revenue from these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.~~

**11. In lieu of the provisions contained in paragraphs 11 and 12 of Section II, a fixed charge of \$400.00 per month will be charged to cover Administrative Overhead, District Expense and all such items, it being stipulated that the salary of operator's production superintendent when actually engaged on the unit property will be allocated on a realistic basis and charged to the unit operation under provisions of Paragraph 2 of Section II.**

**12. Administrative Overhead**

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

**WELL BASIS (Rate Per Well Per Month)**

Well Depth	DRILLING WELL RATE			PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten		

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. In connection with overhead charges, the status of wells shall be as follows:

- (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
- (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
- (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

- ~~(4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time of shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.~~
- ~~(5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.~~
- ~~(6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.~~
- ~~(7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.~~
- ~~(8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.~~
- ~~C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.~~
- ~~D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.~~
- E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

**13. Operator's Fully Owned Warehouse Operating and Maintenance Expense**

(Describe fully the agreed procedure to be followed by the Operator.)

**14. Other Expenditures**

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

**III. BASIS OF CHARGES TO JOINT ACCOUNT**

**1. Purchases**

Material and equipment purchased and service procured shall be charged at price paid by Operator after deduction of all discounts actually received.

**2. Material Furnished by Operator**

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

**A. New Material (Condition "A")**

- (1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on car-load basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
- (2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.
- (3) Cash discount shall not be allowed.

**B. Used Material (Condition "B" and "C")**

- (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.
- (2) Material which cannot be classified as Condition "B" but which,
  - (a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
  - (b) Is serviceable for original function but substantially not suitable for reconditioning,
 shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.
- (3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- (4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

**3. Premium Prices**

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

**4. Warranty of Material Furnished by Operator**

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

**5. Operator's Exclusively Owned Facilities**

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

- A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

- B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates should generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.
- C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property, provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.
- D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests, provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.
- E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

#### **IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL**

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

##### **1. Material Purchased by the Operator or Non-Operator**

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

##### **2. Division in Kind**

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

##### **3. Sales to Outsiders**

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

#### **V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT**

*Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:*

##### **1. New Price Defined**

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

##### **2. New Material**

New material (Condition "A"), being new material procured for the joint account but never used thereon, at one hundred per cent (100%) of current new price (plus sales tax if any).

##### **3. Good Used Material**

Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning:

- A. At seventy five per cent (75%) of current new price if material was charged to joint account as new, or
- B. At sixty five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy five per cent (75%) of new price.

##### **4. Other Used Material**

Used material (Condition "C"), at fifty per cent (50%) of current new price, being used material which:

- A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
- B. Is serviceable for original function but substantially not suitable for reconditioning.

##### **5. Bad-Order Material**

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

##### **6. Junk**

Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.

##### **7. Temporarily Used Material**

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3, B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

#### **VI. INVENTORIES**

##### **1. Periodic Inventories, Notice and Representation**

At reasonable intervals, inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

##### **2. Reconciliation and Adjustment of Inventories**

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

##### **3. Special Inventories**

Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property, and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

*Oil Conservation*

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
OLD LOCO UNIT AREA  
COUNTY OF EDDY  
STATE OF NEW MEXICO

I N D E X

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<b>BEFORE EXAMINER UTZ</b>
<b>OIL CONSERVATION COMMISSION</b>
EXHIBIT NO. <u>3</u>
Case: <u>3231 - 3232</u>

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
OLD LOCO UNIT AREA  
COUNTY OF EDDY  
STATE OF NEW MEXICO

THIS AGREEMENT entered into as of the first day of March 1964, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H:

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

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

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

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Volume 9, Part 2, Chapter 65, Article 3, New Mexico Statutes, 1953 Annotated) to approve this agreement and the conservation provisions hereof; and

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

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

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

1. **ENABLING ACT AND REGULATIONS.** The oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this Agreement.

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

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

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

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

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

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

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

(g) "Unit Area" means the land shown on Exhibit A, and described by Tracts in Exhibit B, containing 720 acres, all lands herein committed to this agreement shall constitute lands referred to as unitized land or land subject to this agreement.

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

(i) "Unit Participation" means the sum of all Tract Participations or portions thereof which a party is entitled to receive. See Exhibits C-1 and C-2.

(j) "Unitized Formation" means the Grayburg and Lovington Formations, same being that heretofore established underground reservoir encountered in the drilling by Miller and Smith of its Texas Gulf State #1 Well between the depths of 2350 and 2850 feet, which said well is located in the SW 1/4 of the NE 1/4 of Section 32, Township 17 South, Range 29 East, Eddy County, New Mexico.

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

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

(m) "Working Interest Owner" means any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, which interest is

chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and the operation thereof hereunder. The owner of oil and gas rights which are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

3. **EXHIBITS.** Attached hereto as Exhibit A is a map showing to the extent known to Unit Operator, the Unit Area and the boundaries and identity of Tracts and leases in said Unit Area. Attached hereto as Exhibit B is a schedule showing to the extent known to Unit Operator the acreage comprising each Tract and the ownership of each interest owner in each Tract. 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 being owned by such party. Attached hereto as Exhibit C is a schedule showing in Part I thereof the Tract Participation of each Tract in the Unit Area and in Part II thereof the Unit Participation of each Working Interest Owner. Said schedule shall become effective at 7:00 a.m. on the effective date of this agreement.

It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than correction of a mathematical or clerical error shall be made by Unit Operator only after first having obtained approval of Working Interest Owners and the Commissioner.

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

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

(a) Unit Operator, with concurrence of at least 75 per cent of the Voting Interests and after preliminary concurrence, the Commissioner and the Commission shall prepare a notice of proposed expansion describing the contemplated change in the boundaries of the Unit Area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.



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

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

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

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

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

5. **UNIT OPERATOR.** VILAS P. SELDON is hereby designated as the Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties of Unit Operator for the development and production of Unitized Substances as herein provided. Whenever reference is made herein to the "Unit Operator," such reference shall be the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such interest is owned by it.

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

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by affirmative vote of at least 75% of the Voting Interests. Such removal shall be effective upon notice thereof to the Commissioner.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interests in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the Unit operations owned by the Working Interest Owners to the new duly qualified successor Unit Operator, or to the owner thereof if no such new Unit Operator is elected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, the Working Interest Owners shall, by affirmative vote of at least 75 per cent of the Voting Interests, select a successor Unit Operator; provided, however, that should any Working Interest Owner own a Voting Interest of more than 25 per cent, the vote of said party shall not serve to disapprove the selection of a new Unit Operator approved by 80 per cent or more of the Voting Interests of the remaining Working Interest Owners and provided, further, that the Unit Operator shall not vote to succeed itself and its Voting Interest shall not be counted in a vote concerning its removal as the Unit Operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner may, at his election, declare this Unit Agreement terminated.

9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. All costs and expenses incurred by Unit Operator in conducting Unit operations hereunder shall be apportioned among, borne and paid by the Working Interest Owners, all in accordance with this agreement and the Unit Operating Agreement. The Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled

to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as they may agree upon. However, the Unit Operating Agreement shall not be deemed either to modify the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement; in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement shall be filed with the Commissioner.

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

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

12. PLAN OF FURTHER DEVELOPMENT AND OPERATION. It is recognized and agreed by the parties hereto that the object and purpose of this agreement is to formulate and to put into effect a secondary recovery project in order to effect the optimum recovery

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

10. PARTICIPATION. Exhibit C-1 shows the percentages of participation to which each Tract shall be entitled if all Tracts within the Unit Area are admitted as of the effective date of this agreement (the qualifications necessary for admission of a Tract being set forth in Section 14 hereof). If less than all Tracts within the Unit Area are admitted as of the effective date of this agreement, Unit Operator, with approval of the Working Interest Owners, as soon as practicable after the effective date of this agreement, shall file with the Commissioner and the Commission schedules of admitted Tracts as of said effective date, which said schedules shall be designated "Revised Exhibit C-1" and considered for all purposes as a part of this agreement. Such revised Exhibit C-1 shall set forth opposite each admitted Tract the revised Tract Participation therefor (which shall be calculated by applying the same Tract Factors and Formula which were used to arrive at the Tract Participation of each Tract as set out in Exhibit C-1 attached hereto, but applying the same only to the admitted Tracts). Such revised Exhibit C-1 unless disapproved by the Commission

and the Commission within 30 days after filing, shall supersede, effective as of the effective date hereof, the Tract Participations set forth in Exhibit C-1 attached hereto until a further revision or revisions thereof is approved by the Commissioner and the Commission. The Tract Participations shown on Exhibit C-1 attached hereto, or as may be shown on the revised Exhibit C-1 as above provided, shall govern the allocation of Unitized Substances on and after the effective date of this Unit Agreement as set forth in Section 3 hereof, and until the allocation schedule is revised pursuant to this agreement and the revised Tract Participations are approved by the Commissioner and the Commission.

14. TRACTS QUALIFIED FOR PARTICIPATION. From the effective date hereof, the Tracts which shall be entitled to participation shall be those Tracts which are described in Exhibit B and which, at any time, are qualified as follows:

(a) Each Tract as to which Working Interest Owners owning 100% of the Working Interest therein have become parties hereto and as to which Royalty Owners owning 75% or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning 100% of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than 75% of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the qualification of such Tract, and

(ii) 80% of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of paragraph (a) hereof have voted in favor of qualifying such Tract.

For the purpose of this paragraph (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in per cent) which its aggregate Unit Participation in all Tracts qualifying under paragraph (a) bears to the total Unit Participation, as shown on Exhibit C-2 of all Working Interest Owners in all Tracts qualifying under paragraph (a).

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

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for qualification of such Tract and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners, their successors and assigns, against all claims and demands which may be made by the owners of Working Interests in such Tract who are not parties hereto and which arise out of the qualification of such Tract; and

(ii) 80% of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of paragraphs (a) and (b) have voted in favor of the qualification of such Tract and acceptance of the indemnity agreement.

For the purpose of this paragraph (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in per cent) which its aggregate Unit Participation in all Tracts qualifying under paragraphs (a) and (b) bears to the total Unit Participation, as shown on Exhibit C-2, of all Working Interest Owners in all Tracts qualifying under paragraphs

(a) and (b). Upon the qualification of such a Tract, the Unit Participations which would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, in proportion to their respective Working Interests in the Tract.

**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 as unitized sand for drilling, operations, and other production or development purposes and for pressure maintenance) shall be apportioned among and allocated to the committed Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods in which such substances were produced, as set forth in the schedule of participations hereunder. The amount of Unitized Substances so allocated to each committed Tract, and such 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, in such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each such Tract shall be distributed among and allocated for to, the parties executing, consenting to or ratifying this agreement relative to share in the production from such Tract in the same manner, and upon the same conditions, as they would have participated in share in the production from such Tract, or in the proceeds thereof, had this agreement been entered into, and with the same legal force and effect, as if the actual production of Unitized Substances from any such committed Tract were allocated as provided herein regardless of whether oil or gas is being produced from any particular Tract qualified hereto. If the Working Interests of the committed Tracts are divided with respect to separate parcels or portions thereof owned or leased severally by different persons, the Tract Participation shall, in the absence of a recordable instrument among all owners of such parcels or portions, be divided among such parcels or portions in proportion to the respective Working Interests in each.

**ABANDONMENT OF PRODUCTION.** Unit Operator shall make a proper and timely record of all tanks and other tanks located on each committed Tract in order to determine the amount of separable oil in such tanks above the pipe line connections, and shall, on the effective date hereof, All Unitized Substances which are produced from any well or wells of the well or wells from which the same were produced shall remain the property of the Working Interest Owners entitled thereto as long as the same have been formed and such Working Interest Owners shall promptly remove same. All Unitized Substances not so removed may be sold by the Unit Operator

... amount of such Working Interest Owners, subject to the payment of all royalties to Royalty Owners, under the terms and provisions of the applicable lease or other contracts. All such Unitized Substances which are in excess of the allowable of the well or wells from which the same were produced shall be treated and treated the same as unitized substances produced after the effective date hereof. If, as of the effective date hereof, any Tract is over-produced with respect to the allowable of the well or wells on that Tract and the amount of such over-production has been sold or otherwise disposed of, such over-production shall be retained and provided as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been produced by the persons entitled to Unitized Substances allocated to such Tract.

**ROYALTY SETTLEMENT.** The State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the unitized substances produced from any committed Tract, shall hereafter be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and the Operator shall make deliveries of such Royalty share taken in kind in conformity with applicable contracts, laws and regulations. Settlement for Royalty Interest in kind shall be made by Working Interest Owners responsible therefor under applicable contracts, laws and regulations, on or before the last day of each month for unitized substances produced during the preceding calendar month, provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases, except that said royalties shall be computed in accordance with the terms of the agreements.

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

the pursuant to such conditions and formulae as may be prescribed or approved by the Commissioner.

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

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

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

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

21. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbon in the under lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Commissioner as to State leases shall by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

(b) Drilling and producing operations performed hereunder upon any Tract of unitized land will 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 develop within a specified time and land therein otherwise.

(c) suspension of drilling or producing operations on the unitized land pursuant to direction or consent of the Commissioner shall be deemed to constitute such suspension pursuant to such direction or consent as to such land over the tract of unitized land.

(d) any lease, suitcase, or contract relating to the exploration, drilling, development or operation for oil, gas, gaseous substances, and/or contained in gas, condensate, distillate and all associated and associated liquids or liquefiable hydrocarbons in and under the lands, within the State of the United States, in lands committed to this agreement, shall by its terms expire prior to the termination of this agreement, and shall be deemed beyond any such term so provided herein to have in full force and effect for and during the term of this agreement, as to the land committed so long as such lands produce unitized substances.

(e) All lease contracts, lands of the State of New Mexico, and/or operations on lands committed hereto shall be segregated and the portions committed to this agreement and the terms of such lease shall apply separately to such segregated portions hereinafter defined. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico, and only a portion of its lands committed hereto, shall continue in full force and effect beyond the term provided herein in all such instances if unitized substances are discovered and are shown to be produced in paying quantities from some part of the lands embraced in such lease committed to this agreement, or the expiration of the term of such lease; or if, at the expiration of the term of such lease, the lessee or the Unit Operator is then engaged in drilling or reworking operations on some part of the lands embraced in such lease, and such lease shall remain in full force and effect as long as such operations are being diligently prosecuted, and if, at the expiration of the term of such lease, unitized substances are produced in paying quantities from any portion of the lands.

**COVENANTS RUN WITH LAND.** The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any person, partnership or interest in land or leases subject hereto shall be deemed to have assumed upon the assumption of all privileges and obligations hereunder and to be bound, his heirs, or other successor in interest. No assignment or transfer of any interest in land or leases subject hereto shall be binding upon Unit Operator until the expiration of the calendar month after Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer, and no assignment or transfer of any Royalty Interest shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

**EFFECTIVE DATE AND TERM.** This agreement shall become binding upon each of the parties hereto as of the date of execution or ratification of this agreement, and shall be effective as of 12:00 P.M. of the first day of the calendar month following the approval by the Commissioner.

There must be an execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners owning a combined Unit Participation of at least 60 percent, and the execution or ratification of the agreement by Royalty Owners owning a combined interest of at least 65 percent of the Royalty Interest in said Unit Area.

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

Unit Operator shall, within thirty (30) days after the effective date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement became 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 and so long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated with the approval of the Land Commissioner and the Working Interest Owners owning 75 percent 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 just as if this agreement had never been entered into.

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

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

provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

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

26. **NO WAIVER OF CERTAIN RIGHTS.** Nothing in this agreement contained shall be construed as a waiver by and party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State of New Mexico, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

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

28. **LOSS OF TITLE.** If any Tract of unitized land ceases to have sufficient Working Interest or Royalty Interest committed to this agreement to meet the conditions of Section 14 because of failure of title to any party hereto, such Tract shall be regarded as not committed hereto as of 7:00 a.m. on the first day of the calendar month in which such failure of title is finally determined; provided, however, that no such Tract shall be so regarded if same can be requalified under said Section 14 within ninety (90) days after the date on which such title failure was finally determined. If any such Tract cannot be so requalified, Unit Operator shall recompute the Tract Participation of each Tract of unitized land remaining subject to this agreement so that such Tract Participations shall remain in the same ratio one to another. Thereafter, Unit Operator shall revise Exhibits C-1 and C-2 conformably with such recomputation. Each such revised exhibit shall be effective at 7:00 a.m. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working

interest owners by reason of such failure shall be governed by the laws operating  
therein. If title to a Royalty Interest fails, but the Trust so created in relation  
herein provided to this agreement, the Royalty Owner whose title failed shall not  
be entitled to participate hereunder insofar as its participation is based on such  
Royalty Interest.

In the event of a dispute as to the title to any Working or Royalty Interest,  
including interest subject hereto, payment or delivery on account thereof may be  
withheld without liability or interest until a dispute is finally resolved; provided,  
that in the event land or lease, or payment of funds due the State of Wyoming shall  
be withheld, such funds of the State shall be deposited as directed by the Commissioner,  
with the said amount being pending final settlement of the title dispute and  
the applicable amount or returned in accordance with such final settlement.

The operator, or such, is relieved from any responsibility for any default  
in the performance of this agreement.

**ASSIGNMENT AND SURRENDER JOINDER.** Any oil or gas leasehold within the  
above described boundaries hereto prior to the effective date of this agreement may  
hereafter be assigned, upon compliance with the applicable provisions of this  
agreement, to a person or persons (TRADE QUALIFIED FOR PARTICIPATION) by the owner or  
owners thereof, or by the operator or consent to this agreement and, if the assignee  
acquires a working interest, by the owner of such interest also submitting to  
the same operating agreement.

Any assignment or joinder subsequent to the effective date hereof shall be  
subject to all requirements or approvals and shall be upon such terms and conditions  
as may be agreed to, at least a majority of the then Voting Interest of the  
operator, interest owners, and approved by the Commissioner, with appropriate recording  
of working interest, effective as of 7:00 a.m. on the first day of the calendar  
month next following such agreement by the Working Interest Owners.

After final approval of this agreement, joinder by a non-working interest  
owner shall be presented to in writing by the Working Interest (as set forth herein)  
and shall be for the payment of any benefits which may accrue hereafter in behalf  
of such non-working interest.

**COPIES.** This agreement may be executed in any number of  
copies, any one of which needs to be executed by all parties, and may be ratified  
or amended by separate instrument in writing specifically referring hereto and  
signed by all the parties who have executed such a copy, and such separate  
amendment or consent hereto shall have the same force and effect as if all such parties  
had signed the same document and regardless of whether or not it is recorded by all parties  
having an ownership or claim in the lands within the above described boundaries.

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

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

12. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners or any of them shall be subject to any forfeiture, termination, or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator, Working Interest Owners, or any of them are hindered, delayed or prevented from complying therewith by reason of the failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the State of New Mexico in

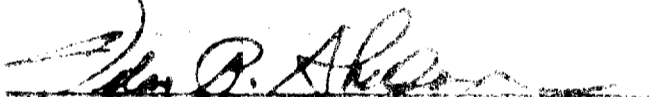
and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject, in any case, to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.


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

**BORDER AGREEMENTS.** Subject to the approval of the Commissioner, the Unit Operator, with concurrence of 75 per cent of the then Voting Interests of the Working Interest Owners, may enter into a border-protection agreement or agreements with the working interest owners of lands adjacent to the committed Tracts with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

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


**UNIT OPERATOR AND WORKING INTEREST OWNER**

  
Villas P. Sheldon, and

  
Betty Sue Sheldon, wife of Villas P. Sheldon  
801 West Texas, Artesia, New Mexico

**OTHER INTEREST OWNERS**

  
R. D. Collier, and

  
Jimmy E. Collier, wife of R. D. Collier  
Artesia, New Mexico

# EXHIBIT "A" OLD LOCO UNIT, EDDY CO.

2" = 1 mile 720 Acres 100% State Land

Revised Dec. 1, 1964

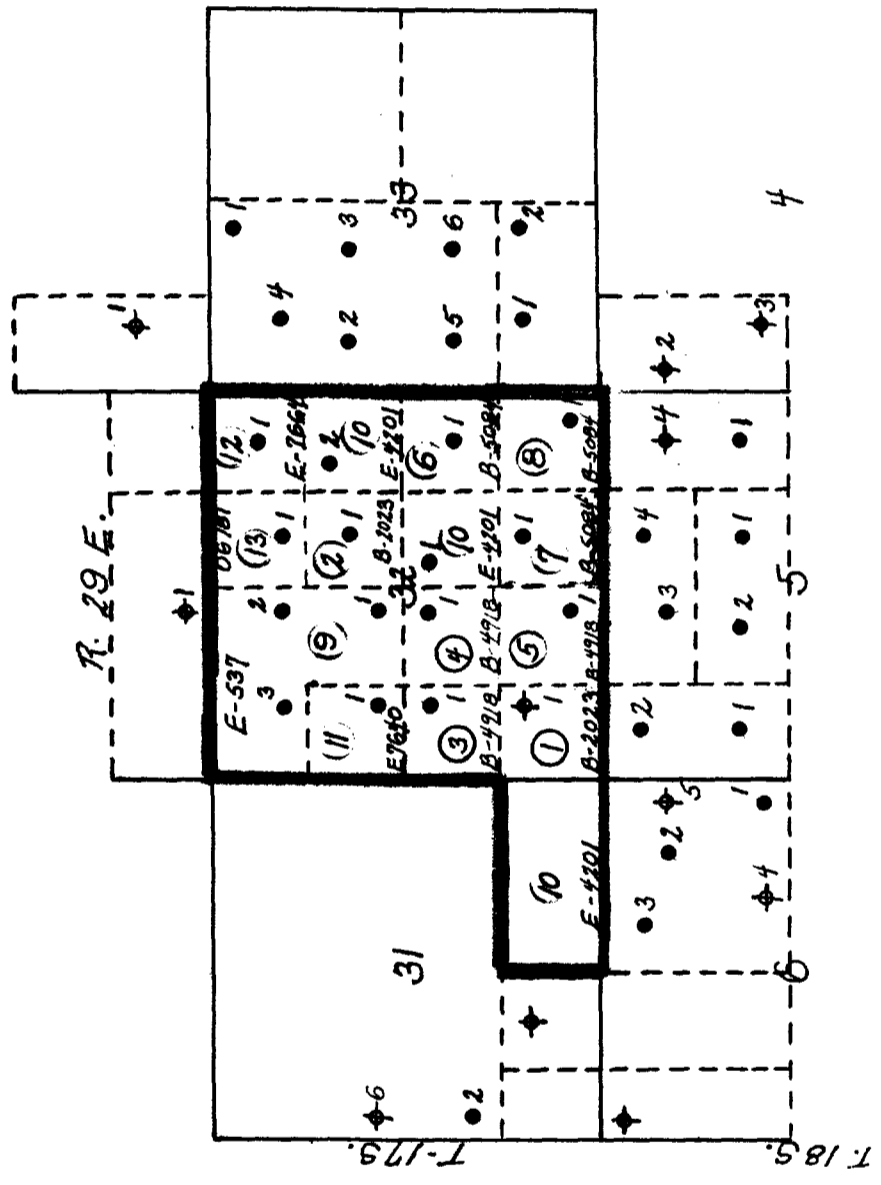


EXHIBIT B TO DEED AGREEMENT  
 OLD LOGS UNIT, EDDY COUNTY, NEW MEXICO

Tract	Description	Acres	Serial No. and Lease Date	Basic Royalty	Lease of Record	Overriding Royalty	Working Interest and Percentage	Working Interest Owner	Working Interest Percent Particly of Tract in U
1	SW/4 SW/4 32-17-29	40	B-2023 7-10-33	1/8th	Sumoco Oil Co	Texas Gulf 1/16s	50%	Vilas P. Sheldon	2.39
							50%	R. D. Collier	
2	SW/4 SW/4 32-17-29	40	B-2023 7-10-33	1/8th	Sinclair Oil & Gas	Texas Gulf 1/16	100%	Miller & Smith	10.80
3	SW/4 SW/4 32-17-29	40	B-4918 9-10-35	1/8th	Geo M Covell	Geo M Covell 1/16 Miller & Smith 1/32	100%	R D Collier	2.55
4	SW/4 SW/4 32-17-29	40	B-4918 9-10-35	1/8th	Miller & Smith Contractors, Inc	O H Rasdel 1/16 P J Vidal 5/8	100%	Miller & Smith	4.57
5	SW/4 SW/4 32-17-29	40	B-4918 9-10-35	1/8th	G D Macy and C. L. Tallmadge	none	30.30% 16.18% 11.95% 10.47% 9.06% 7.50% 7.50% 2.20% 2.20% 1.14% 1.14%	Harold Marney Geo M Covell W L Shoner Bethlehem Steel Co P J Vidal Thelma Mathwin Margaret Holcomb Guy Shepherd Benjamin D Iacchini J R Butler El Paso Nat'l Bank	12.97
6	SW/4 SW/4 32-17-29	40	B-5084 10-10-35	1/8th	P J Vidal	P J Vidal 2/64 J V Eichman 1/64 R L Delager 1/16	100%	R D Collier	11.38
7	SW/4 SW/4 32-17-29	40	B-5084 10-10-35	1/8th	Miller & Smith		100%	Miller & Smith	14.39
8	SW/4 SW/4 32-17-29	40	B-5084 10-10-35	1/8th	Glen F Featherstone	O F Featherstone 9/128 Geo M Covell 1/16secs	54.16% 12.50% 4.17% 4.17% 12.50% 12.50%	Harold Marney Roland McClain Thelma Mathwin Margaret Holcomb O L Featherstone II Charles Hicks	7.85
9	SW SW/4, SW SW/4, SW SW/4 32-17-29	120	E-537	1/8th	Burr McGee Oil Industries, Inc	Burr McGee 1/8 Margaret Hightower 1/64	1/16 11/16secs 4/16	Bill B. Watson R D Collier John P Carube Jr	11.20



10	S/2 SW/4 SE NE, NW SE	31-17-29 32-17-29	160	E-4201	9-11-50	1/8th	Continental Oil Co.	Conoco	1/4	Viles P Sheldon R D Collier	50% 50%	12.00
11	SW/4 NW/4	32-17-29	40	E-7640	12-15-53	1/8th	Leonard Oil Co	Leonard Oil Co	1/16**	Jeff M Hickey R D Collier H M Marlow	1/16 12/16 3/16	2.39
12	NE/4 NE/4	32-17-29	40	E-7664	12-15-53	1/8th	Miller & Smith	Donald Brown	1/16	Miller & Smith	100%	4.09
13	NW/4 NE/4	32-17-29	40	00-181	9-18-56	1/8th	Humble Oil & Refining Co	Humble Oil & Refg Co	1/8	Darham Drig Co R L Burrow Dalevco Oils Kincaid & Watson	50% 5% 8% 33%	3.42

\* OMR is 1/8th when production is above 20 BOPD  
 \*\* OMR is 1/8th when production is above 25 BOPD  
 \*\*\* Collier 9/16th interest subject to Oil Payment (Valley Steel Co.) payable out of 1/4th of w.i. oil  
 \*\*\*\* Correll OMR 1/16 when production is 10 BOPD or over, 5% when production is 5 BOPD and up to 10 BOPD, and 1/32 when production is less than 5 BOPD; OMR on gas 1/16th

SCHEDULE C  
 OLD LOCO UNIT, EDDY COUNTY, NEW MEXICO

March 15, 1963

PART I

TRACT PARTICIPATION

<u>Tract No.</u>	<u>Percentage</u>
1	2.39
2	10.80
3	2.55
4	4.57
5	12.97
6	11.38
7	14.39
8	7.85
9	11.20
10	12.00
11	2.39
12	4.09
13	3.42
	<hr/>
	100.00

PART II

WORKING INTEREST OWNER PARTICIPATION

<u>Owner</u>	<u>Percentage</u>
Vilas P. Sheldon	7.195000
R. D. Collier	30.617500
Miller and Smith	33.850000
Neil B. Watson	.700000
John P. Cauhape, Jr.	2.800000
Jeff M. Hickox	.149375
H. M. Marlow	.448125
Kincaid & Watson & Associates	3.420000
Charles Hicks	.981250
Harold Kersey	4.251560
Olen F. Featherstone II	.981250
Thelma Methvin	.327345
Margaret Holcomb	.327345
Rolana McLean	.981250
Harold Kersey - Trustee for Tract #5	12.970000
W. L. Shaner	11.99%
Bethlehem Steel Co. (account of C. L. Tallmadge)	10.47%
P. J. Vidal	9.06%
Guy Shepherd	2.28%
Benjamin D. Luchini	2.28%
J. R. Butler	1.14%
El Paso National Bank	1.14%
George M. Cowell	16.18%
Harold Kersey	30.30%
Thelma Methvin	7.58%
Margaret Holcomb	7.58%
	<hr/>
	100.000000

OLD LOCD UNIT

OFFSET LEASEHOLD OWNERS

Leonard Oil Company, Box 400, Roswell, New Mexico

International Oil and Gas Corp., 825 Petroleum Club Building, Denver, Colorado

General American Oil Company, Loco Hills, New Mexico.

Skelly Oil Company, Box 1650, Tulsa, Oklahoma

J. C. Thompson, 1203 Kirby Building, Dallas, Texas

Pan American Petroleum Corp., Box 1410, Fort Worth, Texas

Kennedy Oil Company, 300 Carper Building, Artesia, New Mexico