

UNIT AGREEMENT
SKAGGS GRAYBURG UNIT
LEA COUNTY, NEW MEXICO

Index

Preamble

Agreement Proper

Tracts and Tract Participation.....Exhibit "A"
Map of Unit Area.....Exhibit "B"

BEFORE EXAMINER UTZ
CIL CONSERVATION COMMISSION
EXHIBIT NO. <u>10</u>
CASE NO. <u>354198</u>

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UNIT AGREEMENT
SKAGGS GRAYBURG UNIT
Lea County, New Mexico

THIS AGREEMENT, entered into as of the 1st day of July, 1965 by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H:

WHEREAS, in the interest of the public welfare and to promote conservation and increase the ultimate recovery of oil, gas and associated minerals from the Skaggs Grayburg Field of Lea County, New Mexico and to protect the rights of the owners of interest therein, it is deemed necessary and desirable to enter into this agreement to unitize the Oil and Gas Rights in and to the Unitized Formation in order to conduct a secondary recovery, pressure maintenance, or other recovery program as herein provided; and

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

NOW THEREFORE, in consideration of the premises and of the mutual agreements herein contained, it is agreed as follows:

ARTICLE 1
DEFINITIONS

As used in this agreement, the terms herein contained shall have the following meaning:

1.1 UNIT AREA means the lands described by Tracts in Exhibit A and shown on Exhibit B as to which this agreement becomes effective or to which it may be extended as herein provided.

1.2 UNITIZED FORMATION means that subsurface portion of the Unit Area commonly known or described as the Grayburg formation, which is the same formation encountered between the log depths, measured from the derrick floor, of 3788' (subsea elevation of minus 218') and 4080' (subsea elevation of minus 510') in the Texaco Inc. M. B. Weir "B" Well No 9 as shown on the Welex Radioactivity Log of said well which said well is located 660' from the south line and 2180' from the east line of Section 12, T-20-S, R-37-E, Lea County, New Mexico.

1.3 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.

1.4 WORKING INTEREST means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, carried interest, 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, producing, and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.

1.5 ROYALTY INTEREST means a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.

1.6 ROYALTY OWNER means a party hereto who owns a Royalty Interest.

1.7 WORKING INTEREST OWNER means a party hereto who owns a Working Interest. The owner of oil and gas rights that 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.

1.8 TRACT means each parcel of land described as such and given a Tract number in Exhibit "A".

1.9 UNIT OPERATING AGREEMENT means the agreement entitled "Unit Operating Agreement, Skaggs Grayburg Unit, Lea County, New Mexico", of the same effective date as the effective date of this agreement, and which is entered into by Working Interest Owners.

1.10 UNIT OPERATOR means the Working Interest Owner designated by Working Interest Owners under the Unit Operating Agreement to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.

1.11 TRACT PARTICIPATION means the percentage shown on Exhibit "A" for allocating Unitized Substances produced to a Tract under this agreement.

1.12 UNIT PARTICIPATION of each Working Interest Owner means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

1.13 OIL AND GAS RIGHTS means the right to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds therefrom.

1.14 UNIT OPERATIONS means all operations conducted by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of the development and operation of the Unitized Formation for the production of Unitized Substances.

1.15 UNIT EQUIPMENT means all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

1.16 UNIT EXPENSE means all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of Unit Operations.

1.17 OUTSIDE SUBSTANCES means all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.

1.18 Unless the context otherwise indicates, words used in the singular include the plural, the plural include the singular, and the neuter gender include the masculine and feminine.

ARTICLE 2

EXHIBITS

2.1 EXHIBITS. Attached hereto are the following exhibits which are incorporated herein by reference:

2.1.1 EXHIBIT A, which is a schedule that describes each Tract in the Unit Area and shows its Tract Participation.

2.1.2 EXHIBIT B, which is a map that shows the boundary lines of the Unit Area and the Tracts therein.

2.2 REFERENCE TO EXHIBITS. When reference herein is made to an exhibit, the reference is to the Exhibit as originally attached or, if revised, to the latest revision.

2.3 EXHIBITS CONSIDERED CORRECT. An exhibit shall be considered to be correct until revised as herein provided. It is expressly understood and agreed that any acreage figures used or referred to in each exhibit are employed and used for convenience only and do not necessarily reflect the acreage of any particular tract as would be revealed by a true and correct survey thereof.

2.4 CORRECTING ERRORS. The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit.

2.5 FILING REVISED EXHIBITS. If an exhibit is revised pursuant to this agreement, Unit Operator shall certify and file the revised exhibit for record in Lea County, New Mexico.

ARTICLE 3

CREATION AND EFFECT OF UNIT

3.1 OIL AND GAS RIGHTS UNITIZED. Subject to the provisions of this agreement, all Oil and Gas Rights of Royalty Owners in and to the lands described in Exhibit A, and all Oil and Gas Rights of Working Interest Owners in and to said lands, are hereby unitized insofar as the respective Oil and Gas Rights pertain to the Unitized Formation, so that

operations may be conducted as if the Unitized Formation had been included in a single lease executed by all Royalty Owners, as lessors, in favor of all Working Interest Owners, as lessees, and as if the lease had been subject to all of the provisions of this agreement.

3.2 PERSONAL PROPERTY EXCEPTED. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

3.3 AMENDMENT OF LEASES AND OTHER AGREEMENTS. The provisions of the various leases, agreements, division and transfer orders, or other instruments covering the respective Tracts or the production therefrom are amended to the extent necessary to make them conform to the provisions of this agreement, but otherwise shall remain in effect. The participation of each party under an existing agreement in a Tract within the Unit Area shall be that Working Interest Owner's interest in such Tract under this agreement; provided, however, that the Working Interest Owner responsible for the payment of royalties and other payments out of production from leases contributed to any such existing agreement shall remain responsible for such payments hereunder except as otherwise may be provided herein.

3.4 CONTINUATION OF LEASES AND TERM ROYALTIES. Operations, including drilling operations, conducted with respect to the Unitized Formation on any part of the Unit Area, or production from any part of the Unitized Formation, shall, except for the purpose of determining payment to Royalty Owners, be considered as operations upon or production from each Tract in the Unit, and such operations or production shall continue in force and effect each lease or term royalty interest as to all lands and formations covered thereby in the same manner and to the same extent as if such operations had been conducted and a well had been drilled on and was producing from each such Tract.

3.5 TITLES UNAFFECTED BY UNITIZATION. Nothing herein shall be construed to result in the transfer of title to the Oil and Gas Rights by any party hereto to any other party or to Unit Operator. The intention is to provide for the cooperative development and operation of the Tracts and for the sharing of Unitized Substances as herein provided.

3.6 INJECTION RIGHTS. Royalty owners hereby grant unto Working Interest Owners the right to inject into the Unitized Formation any substances in whatever amounts Working Interest Owners deem expedient for Unit Operations, including the right to drill and maintain injection wells on the Unit Area and to use producing or abandoned oil or gas wells for such purposes.

3.7 DEVELOPMENT OBLIGATION. Nothing herein shall relieve Working Interest Owners from the obligation to develop reasonably as a whole the lands and leases committed hereto.

ARTICLE 4

PLAN OF OPERATIONS

4.1 UNIT OPERATOR. Working Interest Owners are, as of the effective date of this agreement, entering into the Unit Operating Agreement and designating TEXACO Inc. as Unit Operator. Unit Operator shall have the exclusive right to conduct Unit Operations. The operations shall conform to the provisions of this agreement and the Unit Operating Agreement. If there is any conflict between such agreements, this agreement shall govern.

4.2 OPERATING METHODS. To the end that the quantity of Unitized Substances ultimately recoverable may be increased and waste prevented, Working Interest Owners shall, with diligence and in accordance with good engineering and production practices, conduct a reasonable pressure maintenance or secondary recovery operation by the injection of water, oil, gas, air or other substances, or any combination of two or more thereof, into the Unitized Formation.

4.3 CHANGE OF OPERATING METHODS. Nothing herein shall prevent Working Interest Owners from discontinuing or changing in whole or in part any method of operation which, in their

opinion, is no longer in accord with good engineering or production practices. Other methods of operation may be conducted or changes may be made by Working Interest Owners from time to time if deemed by them to be feasible, necessary, or desirable to increase the ultimate recovery of Unitized Substances.

ARTICLE 5

TRACT PARTICIPATION

5.1 TRACT PARTICIPATION. In Exhibit "A" attached hereto the various tracts within the Unit Area are listed and numbered and set forth opposite each tract is a figure which represents the percentage of participation allocated to each tract in the Unit Area being hereinafter defined:

Beginning at 7:00 A. M. on the effective date hereof the tract participations of each tract shall be equal to sixty per cent (60%) times the ratio of the cumulative oil production from the Unitized Formation underlying each such tract to the cumulative oil production from the Unitized Formation underlying all such tracts as of January 1, 1965 plus forty percent (40%) times the ratio of the barrels of oil produced from the Unitized Formation underlying such tract to the barrels of oil produced from the Unitized Formation underlying all such tracts during the period from January 1, 1964 to January 1, 1965, as approved by the Working Interest Owners.

5.2 RELATIVE TRACT PARTICIPATIONS. If the Unit Area is enlarged or reduced, the revised Tract Participations of the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another.

ARTICLE 6

ALLOCATION OF UNITIZED SUBSTANCES

6.1 ALLOCATION TO TRACTS. All Unitized Substances produced and saved shall be allocated to the several Tracts in accordance with the respective Tract Participations effective during the period that the Unitized Substances were produced. The amount of Unitized Substances allocated to each Tract, regardless of whether it is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

6.2 DISTRIBUTION WITHIN TRACTS. The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal effect. If any Oil and Gas Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

6.3 VARIABLE OR SLIDING SCALE OIL AND GAS RIGHTS. If the participation of any Oil and Gas Rights in Unitized Substances depends on the average production per well or the average pipeline runs per well on any Tract for any specified period, such average per-well production or such average per-well pipeline runs shall be determined from and after the effective date hereof by dividing the production of Unitized Substances allocated to such Tract by the number of wells located thereon which are completed in the Unitized Formation as of the effective date hereof plus the number of wells thereafter completed therein that are capable of producing Unitized Substances.

6.4 TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Such parties shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the receiving party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of the Unitized Substances.

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

6.6 RESPONSIBILITY FOR ROYALTY SETTLEMENTS. Any party receiving in kind or separately disposing of all or part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for the payment thereof to the persons entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

6.7 ROYALTY ON OUTSIDE SUBSTANCES. If any Outside Substance consisting of natural gases is injected into the Unitized Formation, seventy-five percent (75%) of any like substance contained in Unitized Substances subsequently produced and sold, or used for other than Unit Operations, shall be deemed to be the Outside Substance so injected until the total volume thereof equals the total volume of such Outside Substance so injected, and no payments shall be due or payable to Royalty Owners on said seventy-five percent (75%). If the Outside Substances injected be liquefied petroleum gases, or other liquid hydrocarbons, as distinguished from natural gases prior to injection, the Working Interest Owner shall have the right, beginning one (1) year after injection of such liquefied petroleum gases is commenced, to recover all such injected hydrocarbons without payment of royalty; and, to provide a reasonable and practical basis of accounting for the same, it is agreed that ten percent (10%) of the Unitized Substances produced and sold from the Unitized Formation shall be deemed to be Outside Substances until the aggregate value of said ten percent (10%) of said Unitized Substances equals the entire accumulated cost to the Working Interest Owners of such Outside Substances, which ten percent (10%) will be in addition to that which is being recovered for natural gases as hereinabove provided if both liquefied petroleum gas or other liquid hydrocarbons and natural gases are injected.

ARTICLE 7

PRODUCTION AS OF THE EFFECTIVE DATE

7.1 OIL IN LEASE TANKS. Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipe line connections, as of 7:00 a.m. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provisions of the applicable lease or other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after effective date hereof.

7.2 OVERPRODUCTION. If, as of the effective date hereof, any Tract is overproduced with respect to the allowable of the wells on that Tract and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded as a part of the Unitized Substances produced after the effective date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

ARTICLE 8

USE OR LOSS OF UNITIZED SUBSTANCES

8.1 USE OF UNITIZED SUBSTANCES. Working Interest Owners may use as much of the Unitized Substances as they deem necessary for Unit Operations, including but not limited to the injection thereof into the Unitized Formation.

8.2 ROYALTY PAYMENTS. No royalty, overriding royalty, production, or other payments shall be payable upon, or with respect to, Unitized Substances used or consumed in Unit Operations, or which otherwise may be lost or consumed in the production, handling, treating, transportation, or storing of Unitized Substances.

ARTICLE 9

TRACTS TO BE INCLUDED IN UNIT

9.1 QUALIFICATION OF TRACTS. On and after the effective date hereof and until the enlargement or reduction thereof, the Unit Area shall be composed of the Tracts listed in Exhibit "A" that corner or have a common boundary (Tracts separated only by a public highway or a railroad right of way shall be considered to have a common boundary), and that otherwise qualify as follows:

9.1.1 Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this agreement and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have become parties to this agreement.

9.1.2 Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this agreement and as to which (a) all Working Interest Owners in such Tract have joined in a request for the inclusion of such Tract in the Unit Area, and as to which (b) seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts that meet the requirements of Section 9.1.1 have voted in favor of the inclusion of such Tract. For the purpose of this Section 9.1.2, the voting interest of a Working Interest Owner shall be equal to the ratio that its Unit Participation attributable to Tracts that qualify under Section 9.1.1 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Section 9.1.1.

9.1.3 Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this agreement, regardless of the percentage of Royalty Interest therein that is committed hereto, and as to which (a) the Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have become parties to this agreement have joined in a request for inclusion of such Tract in the Unit Area, and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands that may be made by the owners of Working Interests in such Tract who are not parties to this agreement, and which arise out of the inclusion of the Tract in the Unit Area, and as to which (b) seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Section 9.1.1 and 9.1.2 have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. For the purpose of this Section 9.1.3, the voting interest of each Working Interest Owner shall be equal to the ratio that its Unit Participation attributable to Tracts that qualify under Sections 9.1.1 and 9.1.2 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Section 9.1.1 and 9.1.2. Upon the inclusion of such a Tract in the Unit Area, the Unit Participations that 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.

9.2 SUBSEQUENT COMMITMENT OF INTEREST TO UNIT. After the effective date of this agreement, the commitment of any interest in any Tract within the Unit Area shall be upon such terms as may be negotiated by Working Interest Owners and the owner of such interest.

9.3 REVISION OF EXHIBITS. If any of the Tracts described in Exhibit "A" fail to qualify for inclusion in the Unit Area, Unit Operator shall recompute, using the original basis of computation, the Tract Participation of each of the qualifying Tracts, and shall revise Exhibits "A" and "B" accordingly. The revised exhibits shall be effective as of the effective date hereof.

ARTICLE 10

TITLES

10.1 REMOVAL OF TRACT FROM UNIT AREA. If a Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this agreement to meet the conditions of Article 9 because of failure of title of any party hereto, such Tract shall be removed from the Unit Area effective as of the first day of the calendar month in which the failure of title is finally determined; however, the Tract shall not be removed from the Unit Area if, within ninety (90) days of the date of final determination of the failure of title, the Tract requalifies under a section of Article 9.

10.2 REVISION OF EXHIBITS. If a Tract is removed from the Unit Area because of the failure of title, Unit Operator, subject to Section 5.2, shall recompute the Tract Participation of each of the Tracts remaining in the Unit Area and shall revise Exhibits "A" and "B" accordingly. The revised exhibits shall be effective as of the first day of the calendar month in which such failure of title is finally determined.

10.3 WORKING INTEREST TITLES. If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of the failure of title shall be governed by the Unit Operating Agreement.

10.4 ROYALTY OWNER TITLES. If title to a Royalty Interest fails, but the Tract to which it relates is not removed from the Unit Area, the party whose title failed shall not be entitled to share hereunder with respect to such interest.

10.5 PRODUCTION WHERE TITLE IS IN DISPUTE. If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the discretion of Working Interest Owners shall either:

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

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto.

10.6 PAYMENT OF TAXES TO PROTECT TITLE. The owners of (1) the surface rights to lands within the Unit Area, (2) the severed mineral or Royalty Interests in the lands, and (3) the improvements located on the lands 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. If any ad valorem taxes are not paid by such Owner responsible therefor when due, Unit Operator may, with approval of Working Interest Owners, at any time prior to tax sale, or expiration of period of redemption after tax sale, pay the same, redeem such property, and discharge such tax liens as may arise through nonpayment. Any such payment shall be treated as an item of Unit Expense. Unit Operator shall, if possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due to any delinquent taxpayer or taxpayers an amount sufficient to defray the costs of such payment or redemption, such withholding to be credited to the joint account. 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.

ARTICLE 11

EASEMENTS OR USE OF SURFACE

11.1 GRANT OF EASEMENTS. The parties hereto, to the extent of their rights and interests, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the Unit Area as may reasonably be necessary for Unit Operations; provided that nothing herein shall be construed as leasing or otherwise conveying to Working Interest Owners a site for a water, gas injection, processing or other plant, or camp site.

11.2 USE OF WATER. Working Interest Owners shall have free use of water from the Unit Area for Unit Operations, except water from any well, lake, pond, or irrigation ditch of a Royalty Owner.

11.3 SURFACE DAMAGES. Working Interest Owners shall pay the owner for damages to growing crops, timber, fences, improvements, and structures on the Unit Area that result from Unit Operations in accordance with and as specified in the leases subject to this agreement.

ARTICLE 12

ENLARGEMENTS OF UNIT AREA

12.1 ENLARGEMENTS OF UNIT AREA. The Unit Area may be enlarged to include acreage reasonably proved to be productive upon such terms as may be determined by Working Interest Owners, including but not limited to, the following:

12.1.1 The acreage shall qualify under a Section of Article 9.

12.1.2 The participation to be allocated to the acreage shall be reasonable, fair, and based on all available information.

12.1.3 There shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof; however, this limitation shall not prevent an adjustment of investment by reason of the enlargement.

12.2 DETERMINATION OF TRACT PARTICIPATION. Unit Operator, subject to Section 5.2, shall determine the Tract Participation of each Tract within the Unit Area as enlarged, and shall revise Exhibits "A" and "B" accordingly.

12.3 EFFECTIVE DATE. The effective date of any enlargement of the Unit Area shall be 7:00 a.m. on the first day of the calendar month following compliance with conditions for enlargement as specified by Working Interest Owners, approval of the enlargement by the appropriate governmental authority, if required, and the filing of revised Exhibits "A" and "B" for record in Lea County, New Mexico.

ARTICLE 13

CHANGE OF TITLE

13.1 COVENANT RUNNING WITH THE LAND. This agreement shall extend to, be binding upon, and inure to the benefit of, the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto, and shall constitute a covenant running with the lands, leases and interests covered hereby.

13.2 NOTICE OF TRANSFER. Any conveyance of all or any part of any interest owned by any party hereto with respect to any Tract shall be made expressly subject to this agreement. No change of title shall be binding on the Unit Operator, or upon any party hereto other than the party so transferring, until the first day of the calendar month next succeeding the date of receipt by Unit Operator of a photocopy or a certified copy of the recorded instrument evidencing such change in ownership.

13.3 WAIVER OF RIGHTS TO PARTITION. Each party hereto covenants that, during the existence of this agreement, it will not resort to any action to partition the Unit Area or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

ARTICLE 14

RELATIONSHIP OF PARTIES

14.1 NO PARTNERSHIP. The duties, obligations, and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

14.2 NO SHARING OF MARKET. This agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale, or marketing of Unitized Substances.

14.3 ROYALTY OWNERS FREE OF COSTS. This agreement is not intended to impose, and shall not be construed to impose, upon any Royalty Owner any obligation to pay for Unit Expense unless such Royalty Owner is otherwise so obligated.

14.4 INFORMATION TO ROYALTY OWNERS. Each Royalty Owner shall be entitled to all information in possession of Unit Operator to which such Royalty Owner is entitled by an existing agreement with any Working Interest Owner.

ARTICLE 15

LAWS AND REGULATIONS

15.1 LAWS AND REGULATIONS. This agreement shall be subject to the conservation laws of the State of New Mexico; to the valid rules, regulations, and orders of the Oil Conservation Commission of the State of New Mexico; and to all other applicable federal, state, and municipal laws, rules and regulations, and orders.

ARTICLE 16

FORCE MAJEURE

16.1 FORCE MAJEURE. All obligations imposed by this agreement on each party, except for the payment of money, shall be suspended while compliance is prevented in whole or in part, by a strike, fire, war, civil disturbance, act of God; by federal, state, or municipal laws; by any rule, regulations, or order of a governmental agency; by inability to secure materials; or by any other cause or causes beyond reasonable control of the party. No party shall be required against its will to adjust or settle any labor dispute. Neither this agreement nor any lease or other instrument subject hereto shall be terminated by reason of suspension of Unit Operations due to any one or more of the causes set forth in this Article.

ARTICLE 17

EFFECTIVE DATE

17.1 EFFECTIVE DATE. 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 unless sooner terminated as provided in Section 17.2, shall become effective as to qualified Tracts at the time and date as determined by the Working Interest Owners in all the qualified Tracts, and set forth in a certificate filed for record by Unit Operator in Lea County, New Mexico. The certificate, which will recite the book and page in which a counterpart of this agreement has been recorded, will not be filed until after the following requirements have been met.

17.1.1 Tracts comprising seventy-five percent (75%) or more of the Unit Area as shown on the original Exhibit "B" have qualified under the provisions of Article 9.

17.1.2 the approval of this agreement by the Oil Conservation Commission of the State of New Mexico; and

17.1.3 the filing of at least one counterpart of this agreement for record in Lea County, New Mexico by Unit Operator.

17.2 IPSO FACTO TERMINATION. If the requirements of Section 17.1 are not accomplished on or before July 1, 1966 this agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect, unless prior thereto at least two (2) Working Interest Owners owning a combined Unit Participation of at least seventy percent (70%) have become parties to this agreement and have decided to extend the termination date for a period not to exceed six (6) months. If the termination date is so extended and the requirements of Section 17.1 are not accomplished on or before the extended termination date, this agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect.

ARTICLE 18

TERM

18.1 TERM. The term of this agreement shall be for the time that Unitized Substances are produced in paying quantities and as long thereafter as Unit Operations are conducted without a cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner herein provided.

18.2 TERMINATION BY WORKING INTEREST OWNERS. This agreement may be terminated by at least two (2) Working Interest Owners having a combined Unit Participation of at least eighty percent (80%) whenever such Working Interest Owners determine that Unit Operations are no longer profitable or feasible.

18.3 EFFECT OF TERMINATION. Upon termination of this agreement, the further development and operation of the Unitized Formation as a unit shall be abandoned, Unit Operations shall cease, and thereafter the parties shall be governed by the provisions of the leases and other instruments affecting the separate Tracts.

18.4 SALVAGING EQUIPMENT UPON TERMINATION. If not otherwise granted by the leases or other instruments affecting each Tract unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after the date of termination of this agreement within which to salvage and remove Unit Equipment.

ARTICLE 19

EXECUTION

19.1 ORIGINAL, COUNTERPART, OR OTHER INSTRUMENT. A person 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.

19.2 JOINDER IN DUAL CAPACITY. Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests that may be owned or controlled by such party.

ARTICLE 20

GENERAL

20.1 AMENDMENTS AFFECTING WORKING INTEREST OWNERS. Amendments hereto relating wholly to Working Interest Owners may be made if signed by all Working Interest Owners.

20.2 ACTION BY WORKING INTEREST OWNERS. Except as herein otherwise provided, any action or approval required by Working Interest Owners hereunder shall be in accordance with the provisions of the Unit Operating Agreement.

20.3 LIEN OF UNIT OPERATOR. Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

20.4 CREATION OF NEW INTEREST. If any Working Interest Owner shall, after executing this agreement, create any overriding royalty, production payment, or other similar interests, hereafter referred to as "New Interest", out of its interest subject to this agreement, such New Interest shall be subject to all the terms and provisions of this agreement and Section 17.2 of the Unit Operating Agreement.

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

WORKING INTEREST OWNERS

Approved:

TEXACO Inc.

Terms _____

Form _____

By _____
Attorney-in-Fact

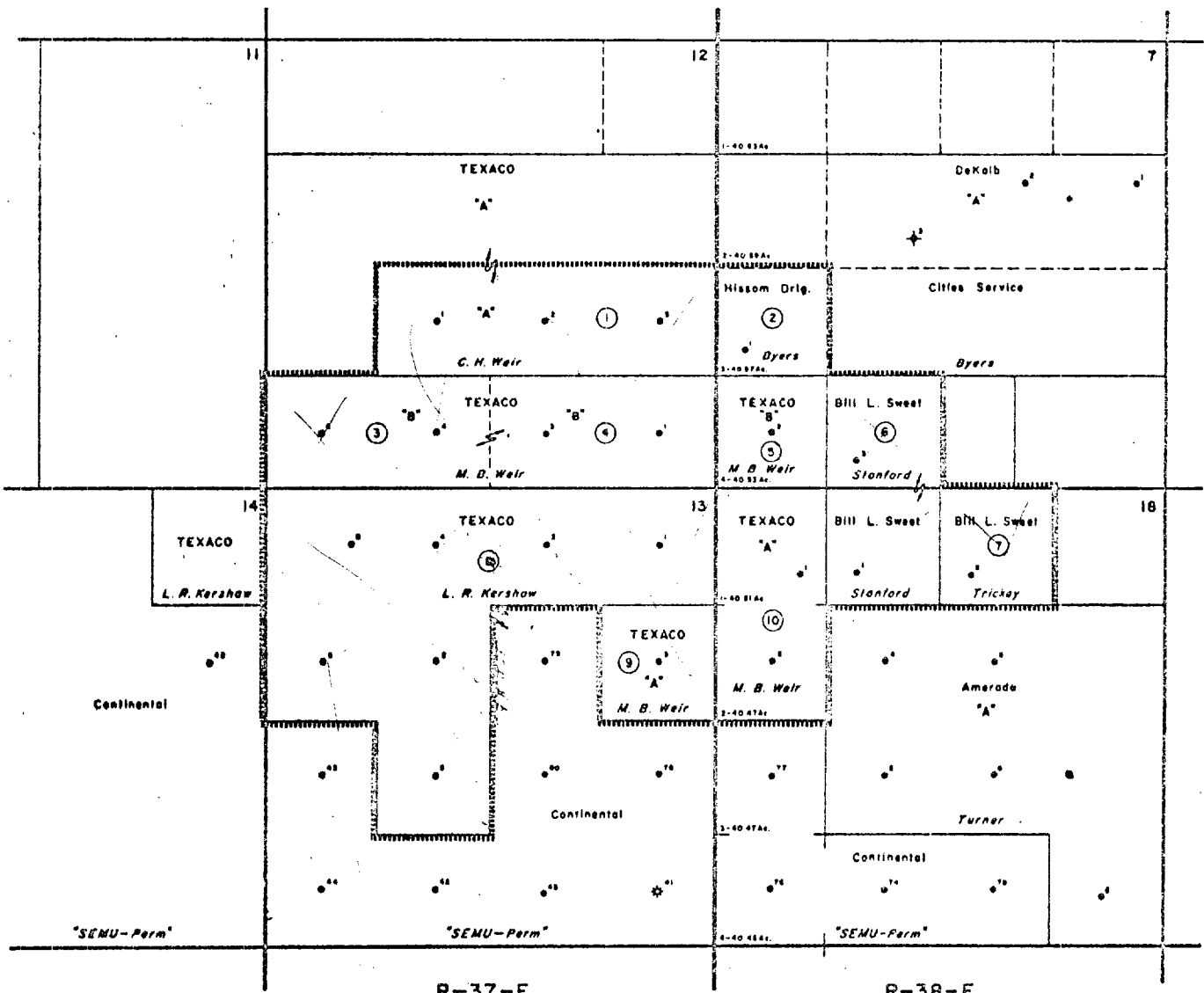
EXHIBIT "A"

Attached to Unit Operating Agreement
Skaggs Grayburg Unit
Lea County, New Mexico

<u>Tract No.</u>	<u>Land Description</u>	<u>Tract Participation Percentage</u>
1	N/2 SE/4, NE/4 SW/4 Section 12, T-20-S, R-37-E	15.92221
2	Lot 3, Section 7, T-20-S, R-38E	3.39658
3	S/2 SW/4 Section 12, T-20-S, R-37-E	6.60292
4	Lot 4, Section 12, T-20-S, R-37-E	14.39299
5	SW/4 SW/4 Section 7, T-20-S, R-38-E	3.96185
6	SE/4 SW/4 Section 7, NE/4 NW/4 Section 18, T-20-S, R-38E	4.53283
7	NW/4 NE/4 Section 18, T-20-S, R-38-E	2.89921
8	NW/4, N/2 NE/4, NE/4 SW/4 Section 13, T-20-S, R-37-E	31.79973
9	SE/4 NE/4 Section 13, T-20-S, R-37-E	4.91359
10	Lots 1 and 2, Section 18, T-20-S, R-38-E	<u>11.57809</u>
		100.00000

T
20
S

T
20
S



R-37-E

R-38-E

LEGEND
 UNIT OUTLINE
 UNIT TRACT NUMBER

EXHIBIT "5"
 TO
 UNIT AGREEMENT
 SKAGGS GRAYBURG UNIT
 Lea County, New Mexico



Drawn By C. E. Best - J. G. L. July 8, 1953

SKAGGS (GRAYBURG) UNIT
 SKAGGS GRAYBERG FIELD
 LEA COUNTY, NEW MEXICO

5217

SEP

<u>WELL LOCATION</u>	<u>OPERATOR</u>	<u>SEE OWNER</u>	<u>OLD NUMBER</u>	<u>NEW NUMBER</u>
Un. K Sec. 12-20S-37E	Texaco "A"	C. H. Weir	1	1
Un. J Sec. 12-20S-37E	"	"	2	2
Un. I Sec. 12-20S-37E	"	"	3	3
Un. L Sec. 7-20S-38E	Hisson Drlg.	Byers	1	4
Un. M Sec. 12-20S-37E	Texaco "B"	M. B. Weir	6	5
Un. N Sec. 12-20S-37E	"	"	4	6
Un. O Sec. 12-20S-37E	"	"	3	7
Un. P Sec. 12-20S-37E	"	"	1	8
Un. M Sec. 7-20S-38E	"	"	2	9
Un. N Sec. 7-20S-38E	Bill L. Sweet	Stanford	3	10
Un. D Sec. 13-20S-37E	Texaco	L. R. Kershaw	8	11
Un. C Sec. 13-20S-37E	"	"	4	12
Un. B Sec. 13-20S-37E	"	"	3	13
Un. A Sec. 13-20S-37E	"	"	1	14
Un. D Sec. 18-20S-38E	Texaco "A"	M. B. Weir	1	15
Un. C Sec. 18-20S-38E	Bill L. Sweet	Stanford	1	16
Un. B Sec. 18-20S-38E	"	Trickey	2	17
Un. E Sec. 13-20S-37E	Texaco	L. R. Kershaw	6	18
Un. F Sec. 13-20S-37E	"	"	2	19
Un. H Sec. 13-20S-37E	Texaco "A"	M. B. Weir	3	20
Un. E Sec. 18-20S-38E	"	"	2	21
Un. K Sec. 13-20S-37E	Texaco	L. R. Kershaw	5	22

Un. L Sec. 7-20S-38E	Hisson Drlg.	Byers	1	4
Un. C Sec. 18-20S-38E	Bill L. Sweet	Stanford	1	16
Un. N Sec. 7-20S-38E	"	"	3	10
Un. B Sec. 18-20S-38E	"	Trickey	2	17
Un. A Sec. 13-20S-37E	Texaco	L. R. Kershaw	1	14
Un. F Sec. 13-20S-37E	"	"	2	19
Un. B Sec. 13-20S-37E	"	"	3	13
Un. C Sec. 13-20S-37E	"	"	4	12
Un. K Sec. 13-20S-37E	"	"	5	22
Un. E Sec. 13-20S-37E	"	"	6	18
Un. D Sec. 13-20S-37E	"	"	8	11
Un. K Sec. 12-20S-37E	Texaco "A"	C. H. Weir	1	1
Un. J Sec. 12-20S-37E	"	"	2	2
Un. I Sec. 12-20S-37E	"	"	3	3
Un. D Sec. 18-20S-38E	Texaco "A"	M. B. Weir	1	15
Un. E Sec. 18-20S-38E	"	"	2	21
Un. H Sec. 13-20S-37E	"	"	3	20
Un. P Sec. 12-20S-37E	Texaco "B"	M. B. Weir	1	8
Un. M Sec. 7-20S-38E	"	"	2	9
Un. O Sec. 12-20S-37E	"	"	3	7
Un. N Sec. 12-20S-37E	"	"	4	6
Un. M Sec. 12-20S-37E	"	"	6	5

EDMc/FMR
 6-28-66