

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION

OF THE

SKELLY PENROSE "A" UNIT

LEA COUNTY, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Applicant's Exhibit No. 1
Case No. Case 3538 and 3539

SKELLY OIL CO.

EXHIBIT NO. 1

DOCKET OR
CASE NO. 3538

DATE 3/15/67

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SKELLY PENROSE "A" UNIT AREA
COUNTY OF LEA
STATE OF NEW MEXICO

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CERTIFICATION - DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior as to Federal lands, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Secs. 181, et seq., and delegated to the Director of the Geological Survey pursuant to Departmental Order No. 2365 of October 8, 1947, 43 C.F.R. Sec. 4.611, 12 F.R. 6784, we do hereby:

A. Approve the attached agreement for the development and operation of the Skelly Penrose "A" Unit Area, Lea County, State of New Mexico.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Director, United States
Geological Survey

Dated _____

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SKELLY PENROSE "A" UNIT AREA
LEA COUNTY, NEW MEXICO

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Exhibit A (Map of Unit Area)

Exhibit B (Schedule of Ownership)

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SKELLY PENROSE "A" UNIT AREA
COUNTY OF LEA
STATE OF NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the first day of April, 1965, 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 Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Secs. 181, et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating under a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof, for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the parties hereto hold sufficient interests in the Skelly Penrose "A" Unit Area covering the 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 Penrose Sand 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 Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid, pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the state in which the non-Federal land is located are hereby accepted and made a part of this agreement.

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) "Department" means the Department of the Interior of the United States of America.

(c) "Director" means the Director of the United States Geological Survey.

(d) "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.

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

(f) "Secretary" means the Secretary of the Interior of the United States of America.

(g) "Supervisor" means the Oil and Gas Supervisor, Branch of Oil and Gas Operations of the Conservation Division of the United States Geological Survey.

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

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

(j) "Unit Area" means the land shown on Exhibit A, and described by Tracts in Exhibit B, containing 2426.85 acres, more or less.

(k) "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 Skelly Penrose 'A' Unit Area, County of Lea, State of New Mexico."

(l) "Unit Participation" of each Working Interest Owner means the sum of the products obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

(m) "Unitized Formation" or "Penrose Sand Formation" means that interval underlying the Unit Area which is productive of Unitized Substances and the vertical limits of which extend from a point 100 feet above the base of the Seven Rivers formation to the base of the Queen formation; said interval having been heretofore found to occur in Skelly Oil Company's Sims "D" No. 2 well (located in the S/2 SE/4 of NW/4 Section 3-T23S-R37E, Lea County, New Mexico) at an indicated depth of from 3279 feet to 3673 feet, as recorded on the Schlumberger electric log, run No. 1, taken November 5, 1948, said log being measured from a derrick floor elevation of 3308 feet above sea level.

(n) "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.

(o) "Voting Interest" means such Working Interest Owner's Unit Participation as same is set out in Exhibit C of the Unit Operating Agreement.

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

(q) "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, the ownership of each interest owner in each Tract, and the Tract Participation of 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.

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 Supervisor.

Exhibits A and B shall be revised by Unit Operator whenever changes render such revision necessary and not less than six (6) copies thereof shall be filed with the Supervisor.

4. UNIT AREA AND EXPANSION THEREOF. The area shown on Exhibit A made a part hereof is hereby designated and recognized as constituting the Unit Area, containing 2426.85 acres, more or less. Said 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) After approval by two or more Working Interest Owners owning at least eighty-eight per cent (88%) of the then Voting Interests and after preliminary concurrence of the Director and the Commission, Unit Operator 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 Supervisor 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 thirty (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 Supervisor 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 Director 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 Penrose Sand Formation, unitized under the terms of this agreement (and are herein called Unitized Substances) and said lands shall constitute lands referred to herein as "unitized land" or "land subject to this agreement."

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

7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after notice of intention to resign has been served by Unit Operator on all Working Interest Owners and the Supervisor and until all wells then drilled hereunder are placed in satisfactory condition for suspension or abandonment, whichever is required by the Supervisor as to Federal 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 two (2) or more Working Interest Owners owning at least seventy-five per cent (75%) of the Voting Interest remaining after excluding the Voting Interest of the Unit Operator. Such removal shall be effective upon notice thereof to the Supervisor.

provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of Unit Operator and shall, not later than thirty (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 owners 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 two (2) or more Working Interest Owners owning at least seventy-five per cent (75%) of the Voting Interests, select a successor Unit Operator; provided, however, that should any Working Interest Owner own a Voting Interest of more than twenty-five per cent (25%), the vote of said party shall not serve to disapprove the selection of a new Unit Operator approved by two (2) or more Working Interest Owners owning eighty per cent (80%) 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. 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 filed with the Supervisor. If no successor Unit Operator is selected

and qualified as herein provided, the Director 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. Three (3) true copies of any Unit Operating Agreement shall be filed with the Supervisor prior to approval of this Unit Agreement.

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 Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners and the Supervisor, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, or any other substance or a combination of any of said substances, whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. This agreement is and shall be subject to the conservation laws of the State of New Mexico, to the valid rules, regulations and orders of the Supervisor 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 Supervisor monthly injection and production reports for wells in the Unit Area. The Working Interest Owners and the Supervisor 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 and the Supervisor.

13. PARTICIPATION. Exhibit B shows the percentage 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 Supervisor and the Commission a schedule of committed Tracts as of said effective date, which schedule shall be designated "Revised Exhibit B" and considered for all purposes as a part of this agreement. Such revised Exhibit B 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 B attached hereto, but applying the same only to the committed Tracts). Such revised Exhibit B, upon approval by the Supervisor and the Commission, shall supersede, effective as of the effective date hereof, the Tract Participations set forth in Exhibit B attached hereto until a further revision or

revisions thereof is approved by the Director and the Commission. The Tract Participations shown on Exhibit B attached hereto, or as may be shown on the revised Exhibit B 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 23 hereof, and until the allocation schedule is revised pursuant to this agreement and the revised Tract Participations are approved by the Director.

The acreages of Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public land survey as of the effective date of this Unit Agreement.

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 one hundred per cent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five per cent (75%) or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than seventy-five per cent (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) Eighty per cent (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 of all Working Interest Owners in all Tracts qualifying under paragraph (a).

(c) Each Tract as to which Working Interest Owners owning less than one hundred per cent (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) Eighty per cent (80%) of the combined voting interests 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 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 B. The amount of Unitized Substances so allocated to each committed Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each such Tract shall be distributed among, or accounted for to, the parties 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 Unitized Substances are 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 United States 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 Supervisor, 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 formulae as may be prescribed or approved by the Supervisor; 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 Supervisor, part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formulae as may be prescribed or approved by the Supervisor.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all Unitized Substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rate specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation, provided that for leases on which the royalty rate depends on the daily average production per well, such average production shall be determined in accordance with the operating regulations as though the committed Tracts were included in a single consolidated lease.

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

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 and Federal 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 prior consent of the Director and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Supervisor.

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 hydrocarbons in and 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 Secretary as to Federal leases shall, and 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 Federal 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 Secretary (or his duly authorized representative) 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, 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 Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to all formations underlying the committed land so long as such land remains committed hereto.

(f) Each sublease or contract relating to the operation and development of Unitized Substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, 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 the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any [Federal] lease hereafter committed to any such [unit] plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, That any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

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:

(a) Tracts comprising eighty-five per cent (85%) or more of the Unit Area as shown on the original Exhibit B have qualified under the provisions of Article 14; and

(b) At least one counterpart of this agreement has been filed for record by Unit Operator in Lea County, New Mexico; and

(c) This agreement has been approved by the Director; and

(d) This agreement has been approved by the Oil Conservation Commission of the State of New Mexico;

provided that if (a), (b), (c), and (d) are not accomplished on or before July 1, 1966, this agreement shall ipso facto expire on that date (hereinafter called "expiration date") and thereafter be of no further effect, unless prior thereto Working Interest Owners owning a combined Unit Participation of at least eighty-five per cent (85%) have become parties to this agreement and have decided to extend the expiration date for a period not to exceed one (1) year. If said expiration date is so extended and (a), (b), (c), and (d) are not accomplished on or before said extended expiration date, this agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect.

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 and, if production is restored, as long thereafter as Unitized Substances can be produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated with the approval of the Director by two (2) or more Working Interest Owners owning eighty-eight per cent (88%) Unit Participation. 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 (6) months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

24. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify, from time to time and in his discretion, the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program which is established, recognized and generally adhered to by the majority of operators in New Mexico, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated

in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law.

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

25. 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 Department of the Interior and the Commission and to appeal from orders issued under the regulations of said Department or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, 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.

26. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratifications 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.

27. NO WAIVER OF CERTAIN RIGHTS. Nothing contained in this agreement 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 of the United States 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.

28. 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.

29. NONDISCRIMINATION. In connection with the performance of work under this agreement, Unit Operator agrees to comply with all of the provisions of Section 301 (1) to (7) inclusive, of Executive Order 10925, as amended (28 F.R. 6485), which are hereby incorporated by reference in this agreement.

30. 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 Exhibit B 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 Federal land, no payments of funds due the United States shall be withheld, but such funds of the United States shall be deposited as directed by the Supervisor, to be held as unearned money pending final settlement of the title dispute and then applied as earned or returned in accordance with such final settlement.

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

31. NONJOINDER AND SUBSEQUENT JOINDER. 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 seventy-five per cent (75%) of the then Voting Interests of the Working Interest Owners, and approval by the Supervisor.

Subsequent joinder to this agreement shall be effective as of 7:00 a.m. of the first day of the calendar month next following the filing with the Supervisor of all papers necessary to effect this joinder, unless a different date is agreed upon by the Working Interest Owners and approved by the Supervisor. If any such subsequent joinder results in the qualification of additional tract or tracts, then Exhibit "B" shall be revised to reflect the revised participation percentages.

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.

32. 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.

33. 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 United States 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 (3) 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.

34. 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 United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, 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.

35. 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.

36. BORDER AGREEMENTS. Subject to the approval of Working Interest Owners owning at least eighty-eight per cent (88%) of the Voting Interest and after approval by the Supervisor, Unit Operator 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.

UNIT OPERATOR AND WORKING INTEREST OWNER:

ATTEST:

SKELLY OIL COMPANY

Appvd. as to form: *[Signature]*

Assistant Secretary

By _____ Vice President

Date of Signature: _____

P. O. Box 1650
Tulsa, Oklahoma 74102

WORKING INTEREST OWNERS:

THE ATLANTIC REFINING COMPANY

Date of Signature:

By _____
Attorney in Fact

Address: _____

ATTEST:

SAMEDAN OIL CORPORATION

Secretary

By _____
Vice President

Date of Signature:

Address: _____

STATE OF OKLAHOMA)
COUNTY OF TULSA) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____, Vice President of SKELLY OIL COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires:

Notary Public

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____, as Attorney in Fact on behalf of THE ATLANTIC REFINING COMPANY.

My commission expires:

Notary Public

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____, Vice President of SAMEDAN OIL CORPORATION, a _____ corporation, on behalf of said corporation.

My commission expires:

Notary Public

ROYALTY OWNERS

Date: _____

Address: _____

STATE OF _____ }
COUNTY OF _____ } SS.

The foregoing instrument was acknowledged before me this _____
day of _____, 1965, by _____.

My commission expires: _____

Notary Public

STATE OF _____ }
COUNTY OF _____ } SS.

The foregoing instrument was acknowledged before me this _____
day of _____, 1965, by _____.

My commission expires: _____

Notary Public

STATE OF _____ }
COUNTY OF _____ } SS.

The foregoing instrument was acknowledged before me this _____
day of _____, 1965, by _____.

My commission expires: _____

Notary Public

STATE OF _____ }
COUNTY OF _____ } SS.

The foregoing instrument was acknowledged before me this _____
day of _____, 1965, by _____.

My commission expires: _____

Notary Public

R. 37 E.

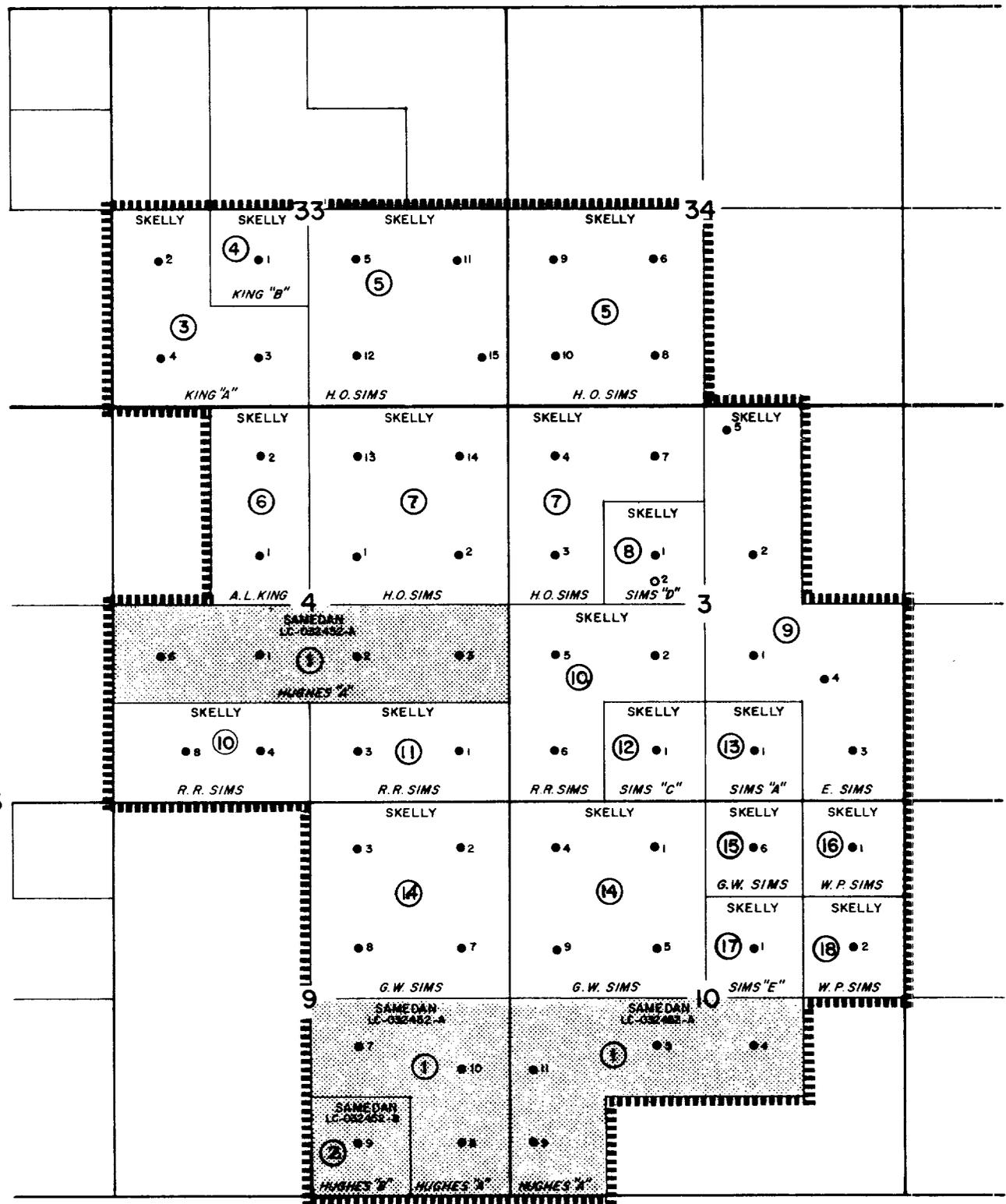
T. 22 S.

T. 22 S.

T. 23 S.

T. 23 S.

R. 37 E.



SKELLY PENROSE "A" UNIT
LEA COUNTY, NEW MEXICO

EXHIBIT "A"

LEGEND

- UNIT AREA
- ① TRACT NUMBER
- FEE LANDS
- ▨ FEDERAL LANDS



EXHIBIT "B"
SCHEDULE SHOWING TRACT PARTICIPATIONS AND THE PERCENTAGE AND KIND OF OWNERSHIP
OF ALL LANDS WITHIN THE SKELLY PENROSE "A" UNIT
TOWNSHIPS 22 AND 23 SOUTH, RANGE 37 EAST, LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & DATE OF LEASE OR APPLICATION</u>	<u>BASIC ROYALTY</u>	<u>LESSEE OF RECORD</u>	<u>OVERRIDING ROYALTY</u>	<u>WORKING INTEREST</u>	<u>PARTICIPATION</u>
<u>FEDERAL LANDS</u>								
1	<u>T23S-R37E</u> Sec. 4; N/2 S/2 Sec. 9; N/2 SE/4, SE/4 SE/4 Sec. 10; N/2 SW/4, SW/4 SW/4, NW/4 SE/4	440	LC-032452a 6-1-57 H.B.P.	United States of America Schedule "C" Step Scale	Sarah B. Hughes, Firm Royalties, Inc.	Pan American Petroleum Cor- poration, et al. 13.75000%	Samedan Oil Corporation 100%	12.24001%
2	<u>T23S-R37E</u> Sec. 9; SW/4 SE/4	40	LC-032452b 6-1-57 H.B.P.	United States of America Schedule "B" Sliding Scale	Sarah B. Hughes, Firm Royalties, Inc.	Pan American Petroleum Cor- poration 3.12500%	Samedan Oil Corporation 100%	0.33031%
								<u>12.57032%</u>
<u>Two (2) Federal Tracts Containing 480 Acres or 19.8% of Unit Area</u>								

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & DATE OF LEASE OR APPLICATION</u>	<u>BASIC ROYALTY</u>	<u>LESSSEE OF RECORD</u>	<u>OVERRIDING ROYALTY</u>	<u>WORKING INTEREST</u>	<u>PARTICIPATION</u>
<u>FEE LANDS</u>								
3	<u>T22S-R37E</u> Sec. 33; W/2 SW/4, SE/4 SW/4	120	4-1-26 H.B.P.	Bertha L. King, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	5.77975%
4	<u>T22S-R37E</u> Sec. 33; NE/4 SW/4	40	9-19-35 H.B.P.	Bertha L. King, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	1.88349%
5	<u>T22S-R37E</u> Sec. 33; SE/4 Sec. 34; SW/4	320	4-1-26 H.B.P.	George W. Sims, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	11.60675%
6	<u>T23S-R37E</u> Sec. 4; Lot 3, SE/4 NW/4	84.20	4-1-26 H.B.P.	Ralph Lowe, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	3.48831%
7	<u>T23S-R37E</u> Sec. 4; Lots 1 and 2, S/2 NE/4 Sec. 3; Lots 3 and 4, SW/4 NW/4	297.96	4-1-26 H.B.P.	George W. Sims, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	12.54040%
8	<u>T23S-R37E</u> Sec. 3; SE/4 NW/4	40	12-16-40 H.B.P.	Skelly Oil Company 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	1.96286%
9	<u>T23S-R37E</u> Sec. 3; Lot 2, SE/4 NE/4, N/2 SE/4, SE/4 SE/4	204.69	4-1-26 H.B.P.	George W. Sims, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	10.15205%

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & DATE OF LEASE OR APPLICATION</u>	<u>BASIC ROYALTY</u>	<u>LESSEE OF RECORD</u>	<u>OVERRIDING ROYALTY</u>	<u>WORKING INTEREST</u>	<u>PARTICIPATION</u>
<u>FEE LANDS, Continued</u>								
10	<u>T23S-R37E</u> Sec. 4; S/2 SW/4 Sec. 3; W/2 SW/4, NE/4 SW/4	200	4-1-26 H.B.P.	R. R. Sims, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	9.67467%
11	<u>T23S-R37E</u> Sec. 4; S/2 SE/4	80	4-1-26 H.B.P.	R. R. Sims, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	2.54950%
12	<u>T23S-R37E</u> Sec. 3; SE/4 SW/4	40	5-1-26 H.B.P.	R. R. Sims, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	2.70036%
13	<u>T23S-R37E</u> Sec. 3; SW/4 NE/4	40	5-1-26 H.B.P.	George W. Sims, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	3.36709%
14	<u>T23S-R37E</u> Sec. 9; NE/4 Sec. 10; NW/4	320	4-1-26 H.B.P.	George W. Sims, et al. 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	13.88855%
15	<u>T23S-R37E</u> Sec. 10; NW/4 NE/4	40	4-1-26 H.B.P.	Skelly Oil Company 12.50000%	Skelly Oil Company	None	Skelly Oil Company 100%	1.35304%
16	<u>T23S-R37E</u> Sec. 10; NE/4 NE/4	40	4-1-26 H.B.P.	W. P. Sims, et al. 12.50000%	Skelly Oil Company	Hugh Corrigan III, et al. 3.12500%	Skelly Oil Company 100%	1.83869%

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & DATE OF LEASE OR APPLICATION</u>	<u>BASIC ROYALTY</u>	<u>LESSEE OF RECORD</u>	<u>OVERRIDING ROYALTY</u>	<u>WORKING INTEREST</u>	<u>PARTICIPATION</u>
<u>FEE LANDS, Continued</u>								
17	T23S-R37E Sec. 10; SW/4 NE/4	40	4-1-26 H.B.P.	The Atlantic Refining Company, et al. 12.50000%	Skelly Oil Company	Hugh Corrigan III, et al. 1.56250% of Skelly's 50%	Skelly Oil Company 50% The Atlantic Refining Company 50%	3.02065%
18	T23S-R37E Sec. 10; SE/4 NE/4	40	4-1-26 H.B.P.	W. P. Sims, et al. 12.50000%	Skelly Oil Company	Hugh Corrigan III, et al. 3.12500%	Skelly Oil Company 100%	1.62352%
<u>Sixteen (16) Fee Tracts Containing 1946.85 Acres or 80.2% of Unit Area</u>								
<u>Skelly Penrose "A" Unit Area Total</u>								
2 Federal Tracts 480.00 Acres 19.8%								
16 Fee Tracts 1946.85 Acres 80.2%								
TOTAL 2426.85 100.0%								
12.57032%								
87.42968%								
100.00000%								

111 22 01 17

SKELLY PENROSE "A" UNIT
LEA COUNTY, NEW MEXICO

WORKING INTEREST OWNERS

Atlantic Richfield Company
Box 1978
Roswell, New Mexico

Samedan Oil Corporation
2207 Wilco Building
Midland, Texas

Skelly Oil Company
P. O. Box 1650
Tulsa, Oklahoma 74102

Case 2538

SKELLY PENROSE "A" UNIT
LEA COUNTY, NEW MEXICO

ROYALTY INTEREST OWNERS

**Atlantic Richfield Company
P. O. Box 1978
Roswell, New Mexico

Dollie Ruth Neal Ballenger
4604 Andrews Highway
Midland, Texas

*Bank of the Southwest, Independent
Executor of Hubert E. Clift Estate
Box 2629
Houston, Texas 77001

B. F. Black
P. O. Box 226
Midland, Texas

Thelma Black
P. O. Box 205
Midland, Texas

Maude Cowden Blakeney
1407 Cuthbert Street
Midland, Texas

Glenn O. Briscoe
6707 Norway Road
Dallas, Texas 75230

L. G. Byerley, Jr.
900 Bedford Drive
Midland, Texas

J. P. Carson
P. O. Box 25
Midland, Texas

Ruth Blakeney Conger
1600 Country Club Drive
Midland, Texas

*Hugh Corrigan III
Station 1, Drawer HC
Vero Beach, Florida

*J. Patrick Corrigan
Station 1, Drawer CR
Vero Beach, Florida

Dan Crenshaw
P. O. Box 199
Fort Sumner, New Mexico

J. B. Crenshaw
131 Mink
San Antonio, Texas

E. G. Daly
2655 East 33rd Place
Tulsa, Oklahoma

Joseph E. Daly, Executor of
E. H. Daly Estate
1242 East 28th Street
Tulsa, Oklahoma

E. J. Dunigan, Jr.
P. O. Box 261
Pampa, Texas

James B. Dunigan
P. O. Box 1641
Abilene, Texas

Dunigan Alpha Trusts
P. O. Box 261
Pampa, Texas

*Constance French Ellison
Lock Box "A"
Carrabelle, Florida

*Robert Murray Fasken, Executor of
Andrew Fasken Estate
1201 Bedford Drive
Midland, Texas

Felmont Oil Corporation
285 Madison Avenue
New York, New York 10017

Joseph W. Gayden
Box 2358
Pampa, Texas

Marjorie Cone Kastman,
Guardian of Estate of S. E. Cone
2806 34th Street
Lubbock, Texas

Emery F. King
723 East Greenacres Drive
Hobbs, New Mexico

Lefors Petroleum Corporation
Box 261
Pampa, Texas

Ralph Lowe
Box 832
Midland, Texas 79701

Bessie Massey
1302 First National Bank Building
Fort Worth, Texas 76102

SKELLY PENROSE "A" UNIT
ROYALTY INTEREST OWNERS
PAGE 2

Mission Corporation
c/o Skelly Oil Company
P. O. Box 1650
Tulsa, Oklahoma 74102

J. E. Moran, Successor Trustee U/W
of Edgar F. Moran
Box 1919
Hobbs, New Mexico

Midwest Oil Corporation
1700 Broadway
Denver, Colorado 80202

Roxie Neal
c/o St. Anthony Hotel
300 East Travis Street
San Antonio, Texas

Bill Pfluger
2659 Harvard
San Angelo, Texas

Addison Lee Pfluger
Box 806
Eden, Texas

Carl R. Pfluger
Eden, Texas

Phillips Investment Corporation
806 South Denver
Tulsa, Oklahoma 74119

E. J. Parsons
2523 19th Street
Lubbock, Texas

Sabine Royalty Corporation
1210 Mercantile Bank Building
Dallas, Texas

*San Angelo National Bank, Executor
of Lorraine B. Leftwich Estate
San Angelo, Texas

*San Angelo National Bank, Successor
Trustee for Ralph W. Leftwich Trust
San Angelo, Texas

Mary Helen Seeton
1815 Union Drive
Denver, Colorado

R. R. Sims
Box 978
Jal, New Mexico

W. P. Sims
Box 496
Eunice, New Mexico

Alex Singer
c/o Continental National Bank of
Fort Worth
714 Houston Street
Fort Worth, Texas

**Skelly Oil Company
P. O. Box 1650
Tulsa, Oklahoma 74102

Helen Schneeman Straus
Oil Field Route
Big Lake, Texas

Elaine M. Walker
1109 Granda
Casper, Wyoming

Irene E. Walker
716 Fourth National Bank Building
Wichita, Kansas

William E. Walker
716 Fourth National Bank Building
Wichita, Kansas

Hattie C. Williams
3208 29th Street
Lubbock, Texas

W. A. Yeager
Box 990
Midland, Texas

(1) G. P. Sims
Box 1046
Eunice, New Mexico

(1) Leo V. Sims
Box 579
Eunice, New Mexico

(1) Ellie Sims Spear
514 East Greenacres
Hobbs, New Mexico

(1) Elizabeth Sims Daugherty
Box 186
Eunice, New Mexico

(1) Winnie Sims Kennan
Box 186
Eunice, New Mexico

United States Department of the Interior

* owns ORRI also

** owns WI also

(1) Unsigned Royalty Owner

SKELLY PENROSE "A" UNIT
LEA COUNTY, NEW MEXICO

OVERRIDING ROYALTY OWNERS

Hugh Corrigan III
Station 1, Drawer HC
Vero Beach, Florida

J. Patrick Corrigan
Station 1, Drawer CR
Vero Beach, Florida

Bank of the Southwest, Independent
Executor of Hubert E. Clift Estate
Box 2629
Houston, Texas

Constance French Ellison
Lock Box "A"
Carrabelle, Florida

Robert Murray Fasken, Executor of
Andrew Fasken Estate
1201 Bedford Drive
Midland, Texas

Firm Royalties, Inc.
c/o Meserve, Mumper and Hughes
700 General Petroleum Building
612 South Flower Street
Los Angeles, California

Sarah B. Hughes
c/o Meserve, Mumper and Hughes
700 General Petroleum Building
612 South Flower Street
Los Angeles, California

Pan American Petroleum Corporation
P. O. Box 1410
Fort Worth, Texas 76101

San Angelo National Bank, Executor of
Lorraine B. Leftwich Estate
San Angelo, Texas

San Angelo National Bank, Successor
Trustee for Ralph W. Leftwich Trust
San Angelo, Texas