

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
VACUUM GRAYBURG SAN ANDRES UNIT AREA  
LEA COUNTY, NEW MEXICO

TABLE OF CONTENTS  
INDEX  
AGREEMENT PROPER

MAP OF UNIT AREA - - - - - EXHIBIT "A"  
SCHEDULE OF OWNERSHIP- - - - EXHIBIT "B"

BEFORE THE OIL CONSERVATION  
DIVISION  
Santa Fe, New Mexico  
Case No. 12592 Exhibit No. 2  
Submitted by:  
Texaco Exploration & Production, Inc.  
Hearing Date: February 8, 2001

UNIT AGREEMENT  
VACUUM GRAYBURG SAN ANDRES UNIT  
LEA COUNTY, NEW MEXICO

<u>SECTION</u>	<u>INDEX</u>	<u>PAGE</u>
	Enabling Act and Regulations. . . . .	1
	ARTICLE 1 DEFINITIONS	
1.1	Commissioner. . . . .	1
1.2	Commission. . . . .	1
1.3	Unit Area . . . . .	1
1.4	Unitized Formation. . . . .	2
1.5	Unitized Substances . . . . .	2
1.6	Working Interest. . . . .	2
1.7	Working Interest Owner. . . . .	2
1.8	Royalty Interest. . . . .	2
1.9	Royalty Owner . . . . .	2
1.10	Tract . . . . .	2
1.11	Unit Operating Agreement. . . . .	2
1.12	Unit Operator . . . . .	2
1.13	Tract Participation . . . . .	2
1.14	Unit Participation. . . . .	2
1.15	Outside Substances. . . . .	2
1.16	Oil and Gas Rights. . . . .	2
1.17	Unit Operations . . . . .	2
1.18	Unit Equipment. . . . .	3
1.19	Unit Expense. . . . .	3
1.20	Singular and Plural - Gender. . . . .	3
	ARTICLE 2 EXHIBITS	
2.1	Exhibits. . . . .	3
2.1.1	Exhibit A: Map . . . . .	3
2.1.2	Exhibit B: Schedule. . . . .	3
2.2	Reference to Exhibits . . . . .	3
2.3	Exhibits Considered Correct . . . . .	3
2.4	Correcting Errors . . . . .	3
2.5	Filing Revised Exhibits . . . . .	3
	ARTICLE 3 CREATION AND EFFECT OF UNIT	
3.1	Oil and Gas Rights Unitized . . . . .	3
3.2	Personal Property Excepted. . . . .	3
3.3	Amendment of Leases and Other Agreements. . . . .	4
3.4	Continuation of Leases and Term Royalties . . . . .	4
3.4.1	Operations. . . . .	4
3.4.2	Continuation of State Leases. . . . .	4
3.4.3	Segregation of State Leases . . . . .	4
3.5	Titles Unaffected by Unitization. . . . .	4
3.6	Injection Rights. . . . .	4
3.7	Development Obligations . . . . .	4
3.8	Drainage. . . . .	4
	ARTICLE 4 PLAN OF OPERATIONS	
4.1	Unit Operator . . . . .	5
4.2	Resignation or Removal of Unit Operator . . . . .	5
4.3	Successor Unit Operator . . . . .	5
4.4	Plan of Operations. . . . .	5
4.5	Accounting Provisions and Unit Operating Agreement. . . . .	6
4.6	Rights and Obligations of Unit Operator . . . . .	6

<u>SECTION</u>	<u>INDEX</u>	<u>PAGE</u>
ARTICLE 5		
EASEMENTS OR USE OF SURFACE		
5.1	Grant of Easements. . . . .	6
ARTICLE 6		
TRACT PARTICIPATION		
6.1	Tract Participation . . . . .	7
6.2	Adjustment for Committed Tracts . . . . .	7
6.3	Relative Tract Participations . . . . .	7
ARTICLE 7		
ALLOCATION OF UNITIZED SUBSTANCES		
7.1	Allocation to Tracts. . . . .	7
7.2	Distribution Within Tracts. . . . .	7
7.3	Taking Unitized Substances in Kind. . . . .	8
7.4	Failure to Take in Kind . . . . .	8
7.5	Royalty Settlement. . . . .	8
7.6	Responsibility for Royalty Settlements. . . . .	9
7.7	Royalty On Outside Substances . . . . .	9
7.8	Rental Settlement . . . . .	9
ARTICLE 8		
PRODUCTION AS OF THE EFFECTIVE DATE		
8.1	Oil in Lease Tanks. . . . .	9
8.2	Overproduction. . . . .	9
ARTICLE 9		
USE OR LOSS OF UNITIZED SUBSTANCES		
9.1	Use of Unitized Substances. . . . .	9
9.2	Royalty Payments. . . . .	9
ARTICLE 10		
TRACTS TO BE INCLUDED IN UNIT		
10.1	Qualification of Tracts . . . . .	10
10.2	No Joinder Unless Tract Qualified . . . . .	10
ARTICLE 11		
TITLES		
11.1	Removal of Tract from Unit Area . . . . .	11
11.2	Revision of Exhibits. . . . .	11
11.3	Working Interest Titles . . . . .	11
11.4	Royalty Owner Titles. . . . .	11
11.5	Production Where Title is in Dispute. . . . .	11
11.6	Conflict of Supervision . . . . .	11
ARTICLE 12		
ENLARGEMENTS OF UNIT AREA		
12.1	Enlargements of Unit Area . . . . .	11
ARTICLE 13		
CHANGE OF TITLE		
13.1	Covenant Running With the Land. . . . .	12
13.2	Notice of Transfer. . . . .	12
13.3	Waiver of Rights to Partition . . . . .	12

<u>SECTION</u>	<u>INDEX</u>	<u>PAGE</u>
ARTICLE 14		
RELATIONSHIP OF PARTIES		
14.1	No Partnership. . . . .	12
14.2	No Sharing of Market. . . . .	13
14.3	Royalty Owners Free of Costs. . . . .	13
14.4	Information to Royalty Owners . . . . .	13
14.5	Appearances . . . . .	13
14.6	Notices . . . . .	13
14.7	No Waiver of Certain Rights . . . . .	13
ARTICLE 15		
LAWS AND REGULATIONS		
15.1	Laws and Regulations. . . . .	13
ARTICLE 16		
FORCE MAJEURE		
16.1	Force Majeure . . . . .	13
ARTICLE 17		
EFFECTIVE DATE		
17.1	Effective Date. . . . .	13
17.2	Certificate of Effectiveness. . . . .	14
ARTICLE 18		
TERM		
18.1	Term . . . . .	14
18.2	Termination by Working Interest Owners . . . . .	14
18.3	Effect of Termination. . . . .	14
18.4	Salvaging Equipment Upon Termination . . . . .	14
ARTICLE 19		
EXECUTION		
19.1	Original, Counterpart, or Other Instrument. . . . .	15
19.2	Joinder in Dual Capacity. . . . .	15
ARTICLE 20		
GENERAL		
20.1	Amendments Affecting Working Interest Owners. . . . .	15
20.2	Border Agreements . . . . .	15
20.3	Action By Working Interest Owners . . . . .	15
20.4	Lien of Unit Operator . . . . .	15
20.5	Creation of New Interest. . . . .	15

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
VACUUM GRAYBURG SAN ANDRES UNIT AREA  
LEA COUNTY, NEW MEXICO  
NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 1st day of November, 1972, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 7, Art. 11, Sec. 39, N.M. Statutes 1953 Annot.), to consent to and approve the development or operation of State Lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

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

WHEREAS, the Oil Conservation Commission of the State of New Mexico (Hereinafter referred to as the "Commission") is authorized by an Act of the Legislature (Chap. 72, Laws 1935; Chap. 65, Art. 3, Sec. 14 N.M. Statutes 1953 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Vacuum Grayburg San Andres 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 conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

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

ARTICLE I  
DEFINITIONS

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

1.1 Commissioner means the Commissioner of Public Lands of the State of New Mexico.

1.2 Commission means the Oil Conservation Commission of the State of New Mexico.

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

1.4 Unitized Formation is that zone interval including and correlative to portions of the Grayburg and San Andres Formations found between the depths of 3,902 feet (plus 105 feet sub-sea) and 4,809 feet (Minus 802 feet sub-sea) on the Wellex Acoustic Velocity Log, dated February 22, 1965, run in Texaco's New Mexico "M" State Well No. 8, located 330 feet from the north line and 1,880 feet from the west line of Section 1, T-18-S, R-34-E, Lea County, New Mexico.

1.5 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.

1.6 Working Interest means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, 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.

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

1.9 Royalty Owner means a party hereto who owns a Royalty Interest.

1.10 Tract means each parcel of land described as such and given a Tract number in Exhibit B.

1.11 Unit Operating Agreement means the agreement entitled "Unit Operating Agreement, Vacuum Grayburg San Andres Unit, Lea County, New Mexico," that will be entered into between Working Interest Owners to be effective at the time and date that it is determined that the Working Interest is owned by more than one Working Interest Owner.

1.12 Unit Operator means the Working Interest Owner designated to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.

1.13 Tract Participation means the percentage shown on Exhibit B for allocating Unitized Substances to a Tract under this agreement.

1.14 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.

1.15 Outside Substances means all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.

1.16 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 thereof.

1.17 Unit Operations means all operations conducted by Working Interest Owners or Unit Operator pursuant to this agreement and, if entered into, the Unit Operating Agreement, for or on account of the development and operation of the Unitized Formation for the production of Unitized Substances.

1.18 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.

1.19 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.

1.20 Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural include the singular, and the neuter gender include the masculine and the 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 map that shows the boundary lines of the Unit Area and the Tracts therein.

2.1.2 Exhibit B, which is a schedule that describes each Tract in the Unit Area and shows its Tract Participation.

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.

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 with the Commissioner of Public Lands of the State of New Mexico for approval and for record in the County or Counties in which this agreement is filed.

## 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 B, 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.

3.4 Continuation of Leases and Term Royalties. Unit Operations conducted on any part of the Unit Area shall be considered with respect to leases and term royalties as follows:

3.4.1 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, except for the purpose of determining payments to Royalty Owners, shall be considered as operations upon or production from each Tract, and such operations or production shall continue in effect each lease or term royalty interest as to all lands covered thereby just as if such operations had been conducted and a well had been drilled on and was producing from each Tract.

3.4.2 Any lease embracing lands of the State of New Mexico which is made subject to this Agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

3.4.3 Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to the portion committed and that portion not committed, and the terms of such lease shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease (whether within or without the Unit Area), (i) if, and for so long as Unitized Substances are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement, or (ii) if, and for so long as some part of the lands embraced in such State lease are allocated Unitized Substances; or (iii) if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein and for so long as such operations are being diligently prosecuted, and if they result in the production of Unitized Substances, said lease shall continue in full force and effect as to all of the lands embraced therein, as provided in (i) or (ii) above.

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.

3.8 Drainage. The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this agreement.



ARTICLE 4  
PLAN OF OPERATIONS

4.1 Unit Operator. Texaco Inc. is hereby designated as the initial Unit Operator and by signature hereto agrees and consents to accept the duties and obligations of Unit Operator for the operation, development, and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

4.2 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 unless a successor Unit Operator has been selected and approved in the manner provided for in Section 4.3 of this agreement. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator shall, upon default or failure in the performance of its duties or obligations hereunder, or for any other cause, be subject to removal by Working Interest Owners having in the aggregate seventy-five percent (75%) or more of the Unit Participation remaining after excluding the Unit Participation of the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

The resignation or removal of Unit Operator under this agreement shall not terminate its rights, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books, and records, materials, appurtenances and any other assets, used in connection with the unit operations and 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 the removal of any material, equipment and appurtenances needed for the preservation of any wells.

4.3 Successor Unit Operator. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinbefore provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. 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 and approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner, at his election, may declare this agreement terminated.

In selecting a successor Unit Operator the affirmative vote of two or more Working Interest Owners owning a total of sixty-five percent (65%) or more of the Unit Participation shall prevail, provided that if any one Working Interest Owner has a Unit Participation of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one (1) or more Working Interest Owners having a combined Unit Participation of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of Working Interest Owners owning a total of at least fifty-one percent (51%) of the Unit Participation remaining after excluding the Unit Participation of Unit Operator so removed.

4.4 Plan of Operations. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect additional 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, Commissioner and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil and any one or more other substances or combination of 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. After commencement of secondary operations, Unit Operator shall furnish the Commissioner with monthly injection and production reports for each well in the Unit. The Working Interest Owners and the Commissioner shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this Agreement, which revisions and changes shall be subject to approval by the Commission and the Commissioner. Subject to like approval the Plan of Operation may be revised as conditions may warrant.

The initial plan of operation shall be filed for approval with the Commissioner and the Commission concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Commissioner and the Commission may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operation.

4.5 Accounting Provisions and Unit Operating Agreement. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such 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 may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner.

4.6 Rights and Obligations of Unit Operator. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or Operating Agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

## ARTICLE 5 EASEMENTS OR USE OF SURFACE

5.1 Grant of Easements. The parties hereto, to the extent of their rights and interest, 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, including the free use of water from the Unit Area for unit operations, insofar as such rights are granted by the oil and gas leases.

ARTICLE 6  
TRACT PARTICIPATION

6.1 Tract Participation. The Tract Participations of each Tract are shown in Exhibit "B", and have been computed in accordance with the following:

Tract Participation Percentage,  
equals  
percentage of acre feet of Grayburg  
San Andres productive oil bearing  
formation underlying each tract within  
The Unit Area, as shown in Exhibit "A".

6.2 Adjustment for Committed Tracts. If less than all Tracts within the Unit Area are committed as of the Effective Date of this agreement, Unit Operator, as soon as practicable thereafter, shall file with the Commissioner schedules of committed Tracts as of said Effective Date, which said schedules shall be designated "Revised Exhibit A", and "Revised Exhibit B", and shall be 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 formulae that were used to arrive at the Tract Participations of each Tract as set out in Original Exhibit "B" attached hereto, by applying the same only to the committed Tracts. Such revised Exhibits 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 Commissioner. The Tract Participations shown on Exhibit "B" attached hereto, or as may be shown on 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 17 hereof, and until the allocation schedule is revised pursuant to this agreement.

6.3 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 7  
ALLOCATION OF UNITIZED SUBSTANCES

7.1 Allocation to Tracts. All Unitized Substances produced and saved (less and except any part of such Unitized Substances used in conformity with good operating practices as concerns the Unitized Formation on Unitized land for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidable loss) shall be allocated to the several Tracts in accordance with the respective Tract Participations. 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.

7.2 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.

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

7.3 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.

7.4 Failure to Take in Kind. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation currently as and when produced, then so long as such condition continues, Unit Operator, for the account and at the expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may sell or otherwise dispose of such production to itself or to others on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all Royalty due under the lease or leases covering the Tracts contributed by it and received into the Unit, and each such party shall hold each other party hereto harmless against all claims, demands and causes of action for such Royalty on the lease or leases and Tracts contributed by it to the Unit Area.

7.5 Royalty Settlement. The State of New Mexico and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If the amount of production or the proceeds thereof accruing to any Royalty Owner in a tract depends upon the average production per well or the average pipeline run per well from such tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the effective date hereof.

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

7.6 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.

7.7 Royalty On Outside Substances. If any Outside Substances, consisting of natural gases, are injected into the Unitized Formation, fifty percent (50%) of any like substances contained in Unitized Substances subsequently produced and sold, or used for other than operations hereunder, shall be deemed to be Outside Substances until the aggregate of said fifty percent (50%) equals the accumulated volume of such natural gases injected into the Unitized Formation. If the Outside Substances injected be liquefied petroleum gases, or other hydrocarbons, as distinguished from natural gases then, beginning one (1) year after injection of such liquefied petroleum gases or other liquid hydrocarbons is commenced, ten percent (10%) of all 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%) equals the entire accumulated cost to the Working Interest Owners of such liquefied petroleum gases or other liquid hydrocarbons injected. No payments shall be due or payable to Royalty Owners on any substance which is classified hereby as an Outside Substance.

7.8 Rental Settlement. Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof, due under their leases. Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico.

#### ARTICLE 8 PRODUCTION AS OF THE EFFECTIVE DATE

8.1 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 the effective date hereof.

8.2 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 9 USE OR LOSS OF UNITIZED SUBSTANCES

9.1 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.

9.2 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 10  
TRACTS TO BE INCLUDED IN UNIT

10.1 Qualification of Tracts. On and after the effective date hereof and until the enlargement or reduction thereof, the Tracts within the Unit Area which shall be entitled to participate in the production of Unitized Substances therefrom shall be those Tracts listed in Exhibit "B" 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:

10.1.1 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.

10.1.2 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) eighty five percent (85%) of the combined voting interests of Working Interest Owners in all Tracts that meet the requirements of Section 10.1.1 have voted in favor of the inclusion of such Tract. For the purpose of this Section 10.1.2, 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 10.1.1 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Section 10.1.1.

10.1.3 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 agreeing to indemnify and 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) eighty five percent (85%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Section 10.1.1 and 10.1.2 have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. For the purpose of this Section 10.1.3, 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 10.1.1 and 10.1.2 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Sections 10.1.1 and 10.1.2. Upon the inclusion of such a Tract in the Unit Area, the Unit Participation 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 Interest in the Tract.

10.2 No Joinder Unless Tract Qualified. As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the tract involved is qualified under Article 10 hereof.

ARTICLE 11  
TITLES

11.1 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 10 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 10.

11.2 Revision of Exhibits. If a Tract is removed from the Unit Area because of the failure of title, Unit Operator, subject to Section 6.3, 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.

11.3 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.

11.4 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.

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

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

11.6 Conflict of Supervision. Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto and the Commission agree that all powers and authority vested in the Commission in and by any provisions of this agreement are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

ARTICLE 12  
ENLARGEMENTS OF UNIT AREA

12.1 Enlargements of Unit Area. The Unit Area may when practicable be enlarged to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this Agreement. Such enlargement shall be effected in the following manner:

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

(b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed enlargement, setting out the basis for admission, the Tract participation to be assigned to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise), if Working Interest Owners having in the aggregate at least eighty-five percent (85%) Unit Participation have agreed to such Tract or Tracts being brought into the Unit, then Unit Operator shall:

(1) After preliminary concurrence by the Commissioner prepare a notice of proposed enlargement describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional tract or tracts, the Participations to be assigned thereto and the proposed effective date thereof; and

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

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above, with the Commissioner, the following: (a) Evidence of mailing or delivering copies of said notice of enlargement; (b) An application for such enlargement; (c) An instrument containing the appropriate joinders reflecting the qualifications of the new tract in the same manner required for the qualification of tracts under Section 10 hereof; and (d) Copies of any objections received.

The enlargement shall, after due consideration of all pertinent information and approval by the Commissioner and the Commission become effective as of the date prescribed in the notice thereof, preferably the first day of a month subsequent to the date of notice or on such other date as set by the Commissioner and the Commission in the order or instrument approving such enlargement. In any approved enlargement of the Unit Area, the revised Tract Participations of those Tracts which were committed prior to each such enlargement shall remain in the same ratio one to another.

#### 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 upon written request therefor 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.

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

14.6 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 ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

14.7 No Waiver of Certain Rights. Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the United States or of the State of New Mexico or rules 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.

#### 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 New Mexico; and to all other applicable federal, state, and municipal laws, rules, 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, regulation, or 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 herein provided, shall become effective as of 7:00 o'clock a.m. of the first day of the calendar month next following:

17.1.1 The execution or ratification of this Agreement by Working Interest Owners owning a combined Unit Participation of at least eighty-five percent (85%), and the execution or ratification of the Agreement by Royalty Owners owning a combined interest of at least sixty-five percent (65%) of the Royalty Interest, in said Unit Area; and

17.1.2 The approval of this Agreement by the Commissioner and the Commission; and

17.1.3 The filing of at least one counterpart of this Agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and provided, further, that if the requirements of Section 17.1 are not accomplished on or before June 1, 1973, this Agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Unit Participation of at least seventy-five (75%), and the Working Interest Owners owning a combined Unit Participation of at least sixty-five percent (65%) committed to this Agreement have decided to extend said expiration date for a period not to exceed twelve (12) months (hereinafter called "extended expiration date"). If said expiration date is so extended and the requirements of Section 17.1 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 and effect.

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

#### 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 one hundred eighty (180) 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 Working Interest Owners having a combined Unit Participation of at least eighty five percent (85%) 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 Border Agreements. Subject to the approval of the Commissioner and Working Interest Owners, the Unit Operator may enter into a border protection agreement or agreements with the Operators of adjacent lands along the boundaries of the Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

20.3 Action by Working Interest Owners. Any action or approval required by Working Interest Owners hereunder shall be in accordance with the provisions of the Unit Operating Agreement.

20.4 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.

20.5 Creation of New Interest. If any Working Interest Owner shall, after executing this agreement, create any overriding royalty, production payment, or net profits or carried interest, or other similar interest, 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 to the Lien of Unit Operator as provided in the Unit Operating Agreement.

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

TEXACO INC.

DATE: \_\_\_\_\_ By: \_\_\_\_\_  
Attorney-in-Fact

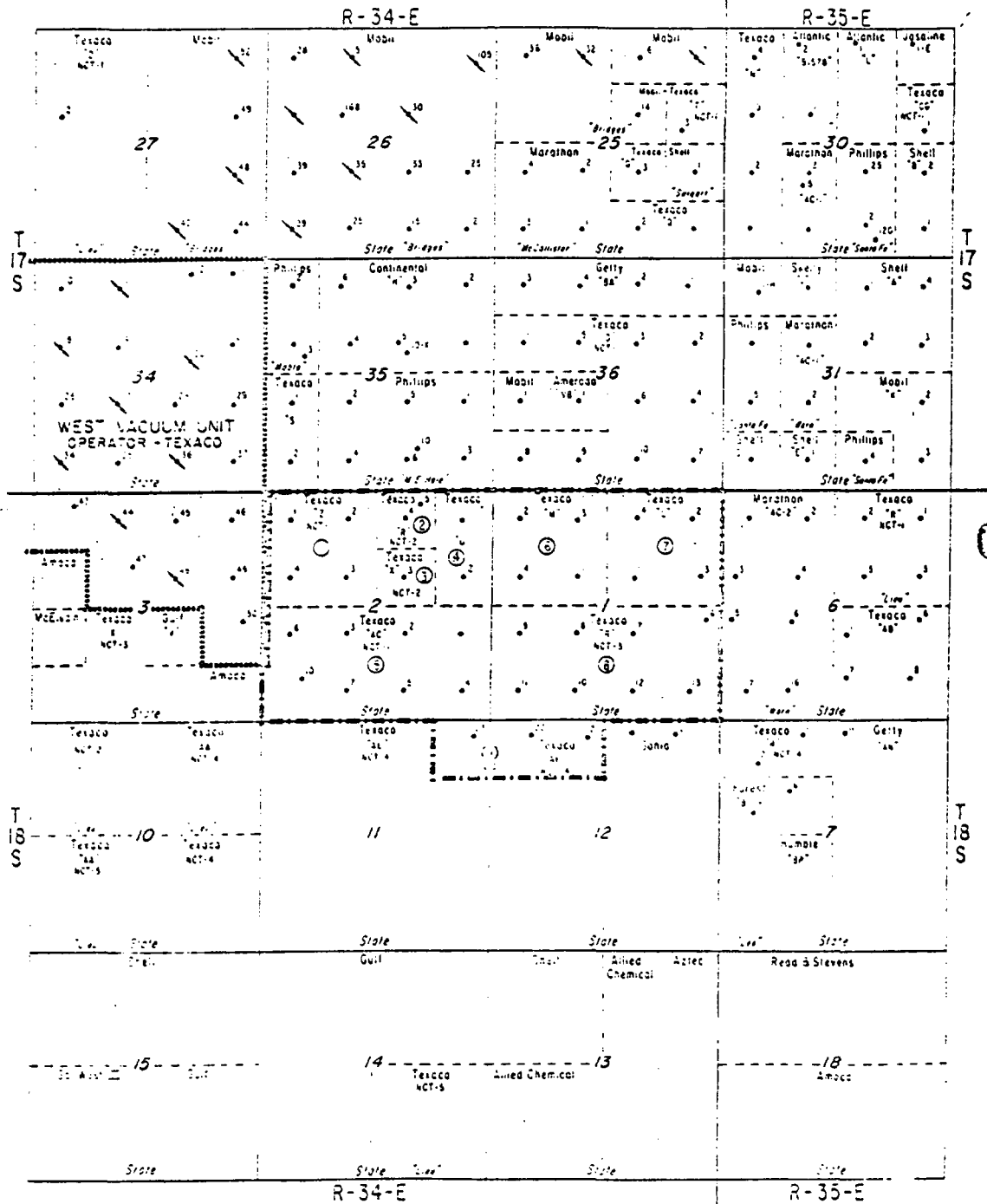
STATE OF \_\_\_\_\_

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

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_ by \_\_\_\_\_, Attorney-in-Fact of TEXACO Inc., a Delaware corporation, on behalf of said corporation.

Notary Public in and for \_\_\_\_\_ County, \_\_\_\_\_

# ILLEGIBLE



UNIT OUTLINE  
TRACT NUMBER

EXHIBIT 100  
VACUUM GRAYBURG SA ACRES UNIT  
LEA COUNTY, NEW MEXICO  
SCALE 0' 2000' 4000'  
KLP/FMR  
Re. 8-3-72

EXHIBIT "B"

SCHEDULE SHOWING TRACT PARTICIPATIONS AND PERCENTAGE AND KIND OF OWNERSHIP  
OF ALL LANDS WITHIN THE VACUUM GRAYBURG SAN ANDRES UNIT  
TOWNSHIP 18 SOUTH, RANGE 34 EAST, LEA COUNTY, NEW MEXICO

<u>1. NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. &amp; DATE OF LEASE OR APPLICATION</u>	<u>BASIC ROYALTY &amp; PERCENTAGE</u>	<u>LESSEE OF RECORD</u>	<u>OVERRIDING ROYALTY &amp; PERCENTAGE</u>	<u>WORKING INTEREST &amp; PERCENTAGE</u>	<u>PERCENTAGE OF TRACT PARTICIPATION</u>
1	T18S-R34E Section 2; Lots 3 & 4, SW/4 NW/4, SE/4 NW/4	161.41	B-3011-1 6-11-34 H.B.P.	State of New Mexico (Common School)	Texaco Inc.	None	Texaco Inc. 100%	10.42594
2	T18S-R34E Section 2; Lot 2	40.83	B-1306-1 11-10-32 H.B.P.	State of New Mexico (Common School)	Texaco Inc.	None	Texaco Inc. 100%	3.39055
3	T18S-R34E Section 2; SW/4 NE/4	40.00	B-1446-1 12-10-32 H.B.P.	State of New Mexico (Lieu)	Texaco Inc.	None	Texaco Inc. 100%	3.17864
4	T18S-R34E Section 2; Lot 1, SE/4 NE/4	80.92	B-867-1 5-6-32 H.B.P.	State of New Mexico (Common School)	Texaco Inc.	None	Texaco Inc. 100%	6.44204
5	T18S-R34E Section 2; NE/4 SW/4, NW/4 SW/4, SW/4 SW/4, SE/4 SW/4, NE/4 SE/4, NW/4 SE/4, SW/4 SE/4, SE/4 SE/4	320.00	B-1189-1 9-10-32 H.B.P.	State of New Mexico (Common School)	Texaco Inc.	None	Texaco Inc. 100%	11.86692

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & DATE OF LEASE OR APPLICATION	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY & PERCENTAGE	WORKING INTEREST & PERCENTAGE	PERCENTAGE OF TRACT PARTICIPATION
6	T18S-R34E Section 1; Lots 3 & 4, SW/4 NW/4, SE/4 NW/4	161.58	B-1080-1 7-30-32 H.B.P.	State of New Mexico (Lieu)	12.50 Texaco Inc.	None	Texaco Inc. 100%	17.37656
7	T18S-R34E Section 1; Lots 1 & 2, SW/4 NE/4, SE/4 NE/4	160.90	B-1733-1 2-17-33 H.B.P.	State of New Mexico (Lieu)	12.50 Texaco Inc.	None	Texaco Inc. 100%	19.91948
8	T18S-R34E Section 1; NE/4 SW/4, NW/4 SW/4, SW/4 SW/4, SE/SW/4, NE/4 SE/4, NW/4 SE/4, SW/4 SE/4, SE/4 SE/4	320.00	B-1306-1 11-10-32	State of New Mexico (M. Inst.)	12.50 Texaco Inc.	None	Texaco Inc. 100%	26.17080
9	T18S; R34E Section 11; NE/4 NE/4, and Section 12; NE/4 NW/4, NW/4 NW/4	120.00	B-1258-1 10-10-32 H.B.P.	State of New Mexico (Lieu)	12.50 Texaco Inc.	None	Texaco Inc. 100%	1.22907
								100.000007

Nine (9) State Tracts containing 1,405.64 Acres and 100.00% of Unit Area

BRIEF OF AGREEMENT  
(Affecting Texaco's Ownership in Lands and Leases)

MIDLAND DIVISION Lea COUNTY, New Mexico MAP COORD. T-18-S, R-34-E

AGREEMENT: VACUUM GRAYBURG SAN ANDRES UNIT

Kind: Revision of Exhibit "A" and Exhibit "B" of the Unit Agreement

Date: January 1, 1981

Term: So long as Unitized Substances are produced in paying quantities.

LAND FILE NUMBERS INVOLVED:

	UNIT TRACT NO.	TEXACO'S NET INTEREST
254770 - VACUUM GRAYBURG SAN ANDRES UNIT		
60868 - N. Mexico "Z" State, NCT-1	1	87.50%
55035 - N. Mexico "R" State, NCT-2	2	87.50%
55278 - N. Mexico "X" State, NCT-2	3	87.50%
54150 - N. Mexico "U" State	4	87.50%
54615 - N. Mexico "AC" State	5	87.50%
54474 - N. Mexico "M" State	6	87.50%
55391 - N. Mexico "L" State	7	87.50%
55035 - N. Mexico "R" State, NCT-3	8	87.50%
54627 - N. Mexico "AE" State	9	87.50%
54146 - N. Mexico "S" State	10	87.50%

SUBSTANCES: All oil, gas and associated hydrocarbons produced from the Unitized Formation.

PARTIES:

UNIT PARTICIPATION

Unit Operator: Texaco Inc.

100.00%

TOTAL ACRES UNITIZED: 1,485.64 acres, more or less

Description: See Exhibits "A" and "B" of The Unit Agreement for detailed description.

DEPTHS OR HORIZONS UNITIZED: Part of the Grayburg and San Andres Formations; approximately 3,902 feet to 4,809 feet subsurface.

The revision of Exhibits "A" & "B" results from the first enlargement of the Vacuum Grayburg San Andres Unit to include Tract No. 10 encompassing 80 acres described as the W/2 SW/4 of Section 35, T-17-S R-34-E, Lea County, New Mexico held by our 54146 - New Mexico "S" State Lease. The said Unit originally covered nine unit tracts encompassing 1,405.64 acres. As a result of the first enlargement effective January 1, 1981, there are 10 unit tracts encompassing 1,485.64 acres.

REMARKS: Texaco owns all the Working Interest; State of New Mexico is the only Royalty Interest Owner. All interests committed.

BRIEFED BY: Robert E. Davis

DATE: February 9, 1981

Copies to: GTS-TJS  
ALG-OK'-RVS-RDT  
JHC-JVG  
GWB(3)-CSH

BRIEF OF AGREEMENT  
(Affecting Texaco's Ownership in Lands and Leases)

MIDLAND DIVISION Lea COUNTY, New Mexico MAP COORD. T-18-S; R-34-E

AGREEMENT: VACUUM GRAYBURG SAN ANDRES UNIT

Kind: Unit Agreement

Date: November 1, 1972

Effective Date: January 1, 1973

Term: So long as Unitized Substances are produced in paying quantities.

LAND FILE NUMBERS INVOLVED:

	UNIT TRACT NO.	TEXACO'S NET INTEREST
254770 - VACUUM GRAYBURG SAN ANDRES UNIT		
60368 - N. Mexico "Z" State, NCT-1	1	87.50%
55035 - N. Mexico "R" State, NCT-2	2	87.50%
55278 - N. Mexico "X" State, NCT-2	3	87.50%
54150 - N. Mexico "U" State	4	87.50%
54615 - N. Mexico "AC" State	5	87.50%
54474 - N. Mexico "M" State	6	87.50%
55391 - N. Mexico "L" State	7	87.50%
55035 - N. Mexico "R" State, NCT-3	8	87.50%
54627 - N. Mexico "AE" State	9	87.50%

SUBSTANCES: All oil, gas and associated hydrocarbons produced from the Unitized Formation.

PARTIES:

UNIT PARTICIPATION

Unit Operator: Texaco Inc.

100.00%

TOTAL ACRES UNITIZED: 1,405.64 acres.

Description: Shown on attached plat and on Exhibit A of Unit Agreement.

DEPTHS OR HORIZONS UNITIZED: Part of the Grayburg and San Andres Formations; approximately 3,902 feet to 4,809 feet subsurface.

REMARKS: Texaco owns all the Working Interest; State of New Mexico is the only Royalty Interest Owner. All interests committed.

Briefed by: F. M. Mason

Date: December 12, 1972

copies to: SEW, Jr.-RMC  
MAS-TJS(2)-PCM-GWB(10)-JJV-RVS  
JVG-TRH