

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE WEST RANGER UNIT AREA
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 15th day of March, 1956,
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 or gas interests in the unit area subject to this agreement;
and

WHEREAS, the Commissioner of Public Lands of the State of New
Mexico (hereinafter referred to as the "Commissioner") is authorized by
Acts of the Legislature (Section 3, Chap. 88, Laws 1943, as amended by
Sec. 1, Chap. 162, Laws 1951) to consent to and approve the development
or operation of State Lands under agreements made by lessees of State
Lands jointly or severally with other lessees where such agreements pro-
vide for the unit operation or development of part of 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
Act of the Legislature (Chap. 72, Laws 1935) to approve this agreement
and the conservation provisions hereof; and

WHEREAS, the parties hereto own the entire working interest in
the West Ranger Unit Area covering the land hereinafter described, and there-
fore have 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.

CASE

APP

1057

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EXHIBIT "I"

NOW, THEREFORE, in consideration of the premises and 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:

1. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO
T-12-S, R-34-E, Lea County

Sections 23 and 26: all
Section 24: W/2 NW/4
Section 25: NW/4

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area. Exhibit "B" attached hereto is a schedule showing the acreage, percentage, and kind of ownership of the oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. If and whenever the unit area is expanded by the procedure hereinafter set out, Exhibits "A" and "B" shall be revised by the Unit Operator to conform with said expansion.

The above described unit area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Commissioner or of any of the parties hereto owning, in the aggregate, 50% of the oil and gas leasehold estate in and to the unit area, 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.

(b) Said notice shall be delivered to the Commissioner and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor who have interests in the unit area, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Commissioner evidence of mailing of the notice of expansion and a copy of any objections thereto which have been filed with the Unit Operator.

(d) After due consideration of all pertinent information, the expansion shall become effective as of the date prescribed in the notice thereof if and after (1) the same shall have been approved by the Commissioner and (2) the owner of each leasehold which has been added to the unit by reason of said expansion shall have executed the within and foregoing unit agreement and a counterpart of the operating agreement covering said unit area, and shall have reimbursed each of the parties hereto on a mutually agreeable basis, for such owner's proportionate share of all costs and expenses theretofore incurred in developing and operating the unit area; provided however, that, except by mutual consent of all parties hereto, no such expansion of the unit area shall be approved unless (1) each lease or interest therein which is proposed to be added to the unit area shall have been proved by actual drilling to be productive of oil or gas in commercial quantities; and (2) such expansion is approved by the owners of at least 90% of the oil and gas leasehold interest in and to the unit area on a surface acreage basis.

All land committed to this agreement shall constitute land referred to herein as "unit area", "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES. All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR. Phillips Petroleum Company, a Delaware corporation with an operating office in Bartlesville, Oklahoma, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such references 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. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time provided a successor Unit Operator has been selected and approved and has agreed to accept the duties and responsibilities of the Unit Operator effective upon the relinquishment of such duties and responsibilities by the retiring Unit Operator. 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.

Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

The resignation or removal of the Unit Operator under this agreement shall not terminate his right, 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, materials and appurtenances used in conducting 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 removal of any material, equipment and appurtenances needed for the preservation of any wells.

5. SUCCESSION UNIT OPERATOR. Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by majority vote select a successor Unit Operator; provided that, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than 75 per cent of the total working interest, shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS. The Unit Operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses so paid by the Unit Operator shall be apportioned among and borne by the owners of working interests and the Unit Operator reimbursed in accordance with an operating agreement by and between the Unit Operator and the other owner or owners of working interests. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this article, whether one or more, are herein referred to as the "Operating Agreement".

7. 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 of the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY. On or before June 15, 1956, the Unit Operator shall, unless it has already done so, commence or cause to be commenced operations upon a test well for oil and gas at a location of its own selection in the Southeast Quarter of the Southeast Quarter (SE/4 SE/4) of Section 23, Township 12 South, Range 34 East, Lea County, New Mexico, and shall prosecute the drilling thereof with due diligence to a depth sufficient test 200 feet of the Devonian formation, or to any lesser depth in said formation at which unitized substances shall be discovered which can be produced in paying quantities, or to water in excessive quantities in said formation at a lesser depth, or to igneous or metamorphic material or some practically impenetrable formation at any lesser depth, or to such depth at which mechanical difficulties make further drilling impractical.

Any well commenced or completed prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of said test well shall be considered as complying with the drilling requirements hereof. Upon failure to comply with the drilling provisions of this section, the Commissioner may, after reasonable

notice to the Unit Operator and each working interest owner at their last known addresses, declare this unit agreement terminated.

9. PARTICIPATION AND ALLOCATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests on an acreage basis bears to the total number of acres committed to the unit agreement, and such unitized substances shall be deemed to have been produced from each of the oil and gas leases committed to this agreement. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalty payable to the State of New Mexico each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease included within the unit bears to the total number of acres committed hereto.

Notwithstanding any provision contained herein to the contrary, each working interest owner shall have the right and privilege, upon the payment or securing the payment of the royalty interest thereon, of receiving in kind or of separately disposing of its proportionate share of the gas and oil saved from the unit area; provided, however, that in the event of the failure or neglect of a non-operator to exercise the right and privilege of receiving in kind or of separately disposing of its proportionate share of said production, Operator shall during such time as such party elects not to receive in kind or to sell and dispose of its proportionate share of production, have the right to purchase any such oil or gas for its own account at not less than the prevailing market price; or Operator may sell the same to others, in which event each of the parties hereto shall be entitled to receive payment direct for its share of the proceeds of all oil and gas so sold. In the event of such sale, each of

the parties shall execute proper division orders or contracts of sale, and in such event as to any proposed contract of sale requiring delivery for a period in excess of that usually demanded by a purchaser of production of like grade and quantity in the area or in excess of one (1) year, the contract must be approved or accepted by the other party or parties. Any extra expenditure incurred by reason of the delivery of such proportionate part of the production to any party shall be borne by such party.

10. ROYALTY AND RENTAL PAYMENT. All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the oil allocated to the respective leases, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

If Unit Operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion 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 at such time as may be provided in a plan of operations consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

11. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or

pursuant to State laws or regulations.

12. DRAINAGE. The Unit Operator shall take such appropriate and adequate measures consistent with those of a reasonably prudent operator to protect the unitized lands from drainage from wells on lands adjacent thereto.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of the lands committed to this agreement shall, upon approval hereof by the Commissioner, be, and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof, and so that the length of the secondary term as to such lands will be extended, insofar as necessary, to coincide with the term of this agreement and the approval of this agreement by the Commissioner and the lessee shall, without further action of the Commissioner or the lessee, be effective to conform the provisions and extend the term of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect in accordance with the provisions thereof. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein so long as this agreement remains in effect, provided drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable law shall continue in full force and effect thereafter. The commencement,

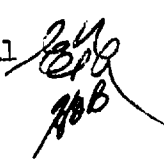
completion, operation or production of a well on any part of the unit area shall be respectively construed and considered as the commencement, completion, operation, or production of a well within the terms and provisions of each of the oil and gas leases to the same extent as though such commencement, completion, operation or production was carried on, conducted or obtained from any such leased tract.

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

14. 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, royalty or other 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.

15. EFFECTIVE DATE AND TERM. This agreement shall become effective (1) upon execution of this agreement, prior to April 1, 1956, by working interest owners in the Unit Area owning 90% of the working interest therein on an acreage basis, and (2) upon approval by the Commissioner, and shall terminate in two years after such date/unless ^{of approval} (a) such date of expiration is extended by the Commissioner, (b) or development operations are then being conducted on lands comprising the unit area, or (c) a discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities, and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid. This agreement may be terminated at any time after the two year period or any extensions thereof, by not less than 75 per cent on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner; provided (1) production of unitized substances in commercial quantities has not been obtained from the unit area, or, having been obtained, has ceased; and (2) development



operations are not then being conducted.

16. RATE OF PRODUCTION. All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

17. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

18. NOTICES. All notices that are required or authorized to be given hereunder except as otherwise specifically provided for herein, shall be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

Texas Pacific Coal and Oil Company
P. O. Box 2110
Fort Worth, Texas

Phillips Petroleum Company
Attention: Land and Geological Department
Bartlesville, Oklahoma

The originating notice to be given under any provision hereof shall be deemed given when received by the party to whom such notice is directed, and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent notice shall be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, with postage or charges prepaid.

19. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, war, 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.

20. LOSS OF TITLE. In the event title to any tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the Unit Operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

21. SUBSEQUENT JOINDER. Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to any operating agreement affecting the allocation of costs of exploration, development and operation. After operations are commenced hereunder, the right of

subsequent joinder by a working interest owner shall be subject to all of the requirements of any applicable operating agreement between the working interest owners relative to the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the filing with the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement.

22. EXISTING OPERATING AGREEMENT. In the event of any inconsistency or conflict between this unit agreement and the contemporaneous operating agreement entered into by and between the Unit Operator and the owners of working interests, this unit agreement, to that extent only, shall prevail.

23. COUNTERPARTS. This agreement may be executed in any number of counterparts no one of which needs to be executed by all parties or 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.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the dates of their respective acknowledgments hereto.

APPROVED AS TO FORM

By John T. Ferguson

Secretary
Texas Pacific Coal and Oil Company

DESCRIPTION OF INTERESTS
COMMITTED TO WEST RANGER
UNIT AGREEMENT IN REFERENCE
TO TRACT NUMBERS IN EXHIBIT
"B" ATTACHED TO UNIT AGREEMENT

SIGNATURES

PHILLIPS PETROLEUM COMPANY

Tracts Nos. 2, 3, 4, 5, 6

By

[Signature]
Vice President
J. C. H. 7/20/03

ATTEST:

[Signature]
Assistant Secretary

TEXAS PACIFIC COAL AND OIL COMPANY

By

[Signature]

Tract No. 1

ATTEST:

[Signature]
Secretary

STATE OF OKLAHOMA §

COUNTY OF WASHINGTON §

The foregoing instrument was acknowledged before me this 16
day of March, 1956, by G. L. McCullough
Vice President of PHILLIPS PETROLEUM COMPANY, a Delaware corporation,
on behalf of said corporation.

My Commission Expires:

12-29-57

Nelson Shelton
Notary Public in and for Washington
County, Oklahoma

STATE OF Texas §

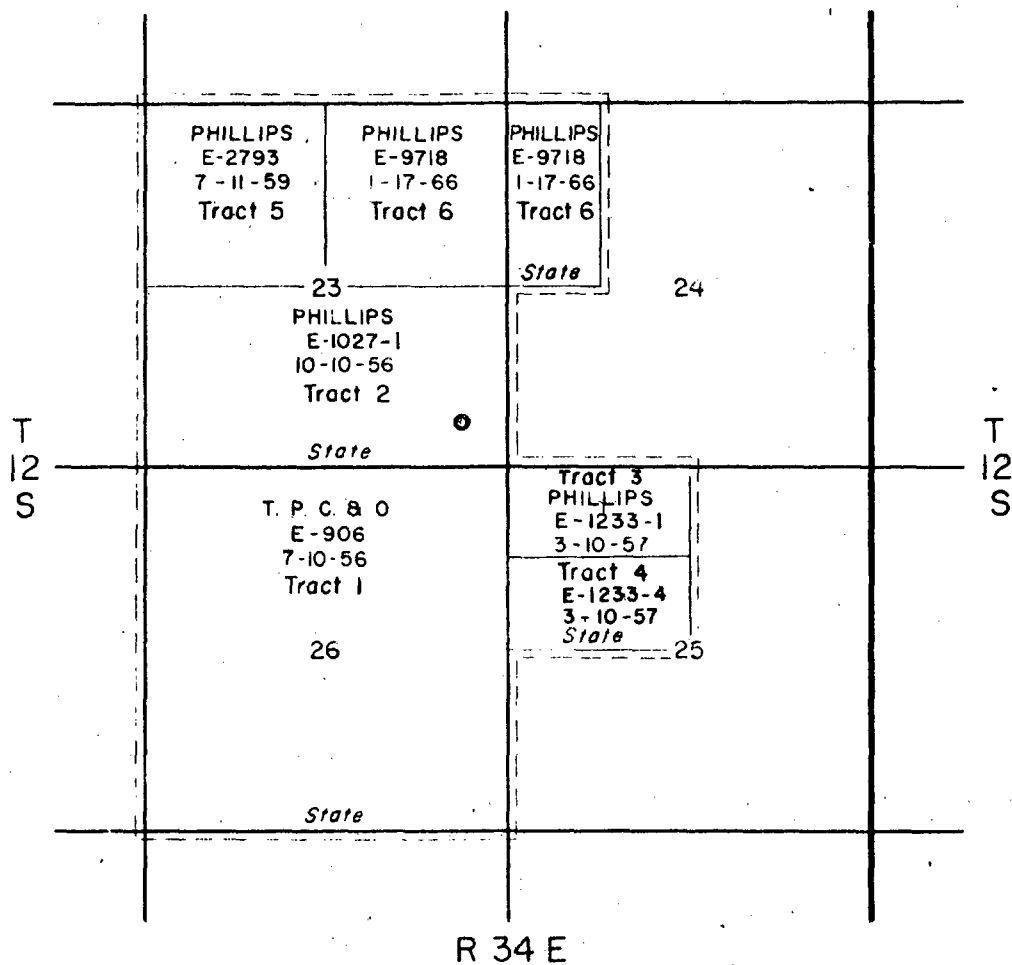
COUNTY OF Tarrant §

The foregoing instrument was acknowledged before me this 15th
day of March, 1956, by Eugene T. Adair
Exec. Vice President of TEXAS PACIFIC COAL AND OIL COMPANY, a Texas
corporation, on behalf of said corporation.

My Commission Expires:
My Commission Expires June 1, 1957

Donald M. Woodard
Notary Public in and for
County, _____.

DONALD M. WOODARD, Notary Public
In and For Tarrant County, Texas



WEST RANGER UNIT AREA

LEA COUNTY, NEW MEXICO

Scale: 2" = 1 mile

LEGEND

——— Unit Outline
 ○ Tract Number
 ● Unit Test
 Total 1520 Acres — All
 owned by the State of
 New Mexico

EXHIBIT A



EXHIBIT "B"

WEST RANGER UNIT AREA, LEA COUNTY, NEW MEXICO
TOWNSHIP 12 SOUTH, RANGE 34 EAST

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OIL AND GAS
INTERESTS IN ALL LANDS IN THE UNIT AREA

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	STATE LEASE NO. AND DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST OWNER
1.	T-12-S, R-34-E Sec. 26: all	640	E-906 7-10-46	State-All	Texas Pacific Coal & Oil Company	None	Texas Pacific Coal & Oil Company
2.	T-12-S, R-34-E Sec. 23: S/2	320	E-1027-1 10-10-46	State-All	Phillips Petroleum Company	The Vickers Petroleum Company, Inc. - 1/8 of 7/8	Phillips Petroleum Company
3.	T-12-S, R-34-E Sec. 25: N/2 NW/4	80	E-1233-1 3-10-47	State-All	Phillips Petroleum Company	None	Phillips Petroleum Company
4.	T-12-S, R-34-E Sec. 25: S/2 NW/4	80	E-1233-4 3-10-47	State-All	Phillips Petroleum Company	Ralph Nix and Jerry Curtis - 1/16 of 7/8	Phillips Petroleum Company
5.	T-12-S, R-34-E Sec. 23: NW/4	160	E-2793-1 7-11-49	State-All	Phillips Petroleum Company	Caswell S. Neal and wife, Eva F. Neal - Oil Payment of \$80,000 payable out of 1/16 of 7/8	Phillips Petroleum Company
6.	T-12-S, R-34-E Sec. 23: NE/4 Sec. 24: NW/4 NW/4 and SW/4 NW/4	240	E-9718 1-17-56	State-All	Phillips Petroleum Company	None	Phillips Petroleum Company

West Ranger Unit Area, 1,520 Acres, 6 Tracts, Lea County, New Mexico