

In Reply: Refer
to Unit Division

June 8, 1961

Wilshire Oil Company of Texas
c/o Britalta Petroleum Limited
970 Elvedon House
Calgary, Alberta

Re: Application to extend
the term of the Seven
Rivers Hills Unit
Agreement

Attention: Mr. Clyde N. Stone

Gentlemen:

The Commissioner of Public Lands has approved as of June 6, 1961, your application to extend the term of the Seven Rivers Hills Unit Agreement, Eddy County, New Mexico. This extension is from July 1, 1961 to October 1, 1962.

We are enclosing one approved copy of this Application and forwarding eight copies to Gulf Oil Corporation, P. O. Box 1938, Roswell, New Mexico, attention Mr. William Kastler.

Very truly yours,

E. S. JOHNNY WALKER
COMMISSIONER OF PUBLIC LANDS

ESW/mmr/v

cc: Oil Conservation Commission
Santa Fe, New Mexico

U. S. Geological Survey
Roswell, New Mexico

Gulf Oil Corporation
Roswell, New Mexico

In reply refer to:
Unit Division

February 16, 1960

C
O
P
Y

Wilshire Oil Company of Texas
c/o Britalta Petroleum, Ltd.
717 Bamlett Building
Calgary, Alberta, Canada

Re: Seven Rivers Hills
Unit Agreement
Eddy County, New Mexico

Gentlemen:

We are handing to Mr. Foster Morrell, nine copies of application to extend the time in which to commence drilling a further test well and extension of the term of the Seven Rivers Hills Unit Agreement to July 1, 1961. This application was approved by the Commissioner of Public Lands, February 16, 1960.

This approval being subject to like approval by the United States Geological Survey and we request that we be furnished another copy of this application when it has been fully executed.

Very truly yours,
MURRAY E. MORGAN
Commissioner of Public Lands

BY:
Ted Bilberry, Supervisor
Oil and Gas Division

MEM/MMR/m
cc:

OCC-Santa Fe
USGS-Roswell



UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY
WASHINGTON, 25, D. C.

RECEIVED MAR 24 1960

Case # 1224

MAR 23 1960


Wilshire Oil Company of Texas
c/o Mr. Foster Morrell
Post Office Box 933
Roswell, New Mexico

Gentlemen:

On March 18, 1960, Arthur A. Baker, Acting Director of the Geological Survey, approved your application of January 29, 1960, for a one-year extension until July 1, 1961, of the term of the Seven Rivers Hills unit agreement, Eddy County, New Mexico, and for a six-month extension expiring at midnight September 10, 1960, of the time within which to commence the fourth test well.

Enclosed are five copies of the approved application for your records. It is assumed that you will furnish the State of New Mexico and any other interested principals with whatever evidence of this approval is deemed appropriate.

Very truly yours,


For the Director

Enclosures 5

FOSTER MORRELL

PETROLEUM CONSULTANT
NICKSON HOTEL BUILDING
ROSWELL, NEW MEXICO

March 31, 1960

Mr. Clyde N. Stone
Vice-President, Land Department
Wilshire Oil Company of Texas
% Britalta Petroleums, Ltd.
717 Bamlett Building
Calgary, Alberta, Canada

Re: Seven Rivers Hills Unit Agreement
Eddy County, New Mexico

Dear Mr. Stone:

Forwarded herewith is an approved copy of application of Wilshire Oil Company of Texas dated January 29, 1960, for a one-year extension until July 1, 1961, of the term of the Seven Rivers Hills Unit Agreement, Eddy County, New Mexico, and for a six-months extension expiring at midnight September 10, 1960, of the time within which to commence the fourth test well. Also forwarded herewith is a copy of transmittal letter dated March 28, 1960, from H. J. Duncan, for the Director, to Wilshire Oil Company of Texas, in care of the undersigned, advising that the above application was approved on March 18, 1960, by Arthur A. Baker, Acting Director of the United States Geological Survey.

At the time copies of the application of January 29, 1960, were circulated for execution you were furnished with copies of Exhibit "B" revised to January 29, 1960. Attached hereto are copies of Exhibit "A" revised to conform to Exhibit "B" to January 29, 1960.

By copy of this letter an approved copy of the application of January 29, 1960, a copy of transmittal letter of March 28, 1960, and a copy of revised Exhibit "A" are being forwarded to the working interest owners and representatives of the State of New Mexico as listed below.

Very truly yours,

COPY (Original Signed) Foster Morrell

Foster Morrell

FM/rpd

Enclosures

Case # 1274

November 27, 1961

Gulf Oil Corporation
P. O. Box 1938
Roswell, New Mexico

Re: Termination of Seven
Rivers Hills Unit
Agreement, Eddy County,
New Mexico

Attention: Mr. William V. Kastler

Gentlemen:

The Commissioner of Public Lands has approved the Termination of the Seven Rivers Hills Unit Agreement, Eddy County, New Mexico as of November 27, 1961.

We are enclosing thirteen Certificates of Approval. Please notify us as to the effective date of this termination.

Very truly yours,

E. S. JOHNNY WALKER
COMMISSIONER OF PUBLIC LANDS

ESW/nmr/v

Encl:

cc: Oil Conservation Commission
Santa Fe, New Mexico

U. S. Geological Survey
Roswell, New Mexico

C
O
P
Y

Mr. Clyde N. Stone
Page 2
March 31, 1960

cc: Carper Drilling Company, Inc.
200 Carper Building
Artesia, New Mexico (Enclosures)

cc: Phillips Petroleum Company
P. O. Box 791
Midland, Texas (Enclosures)

cc: Sinclair Oil & Gas Company
P. O. Box 1470
Midland, Texas (Enclosures)

cc: Mr. Murray E. Morgan
Commissioner of Public Lands
P. O. Box 791
Santa Fe, New Mexico (Enclosures)

cc: Mr. A. L. Porter, Jr.
Manager and Secretary
New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico (Enclosures)

WILSHIRE OIL COMPANY OF TEXAS

% Britalta Petroleums, Ltd.

717 Bamlett Building
Calgary, Alberta, Canada

January 29, 1960

Case #1224

Commissioner of Public Lands
State of New Mexico
Capitol Annex Building
Santa Fe, New Mexico

Director
United States Geological Survey
Department of the Interior
Washington 25, D. C.

Through: Regional Oil and Gas Supervisor
United States Geological Survey
Roswell, New Mexico

Re: Seven Rivers Hills Unit Agreement
No. 14-08-001-3900
Eddy County, New Mexico

Gentlemen:

Wilshire Oil Company of Texas, Unit Operator of the subject unit, respectfully requests an extension of time to September 10, 1960, to commence the drilling of a further test well on the unit area pursuant to Section 9 of the Seven Rivers Hills Unit Agreement and an extension of the term of said unit agreement to July 1, 1961, to provide adequate time for the completion of said additional test well.

In support of this application Wilshire submits the following statements and facts regarding the unit agreement and the drilling conducted thereunder.

The Seven Rivers Hills Unit Agreement, Eddy County, New Mexico, was approved on September 27, 1957, by the Acting Director of the Geological Survey. The agreement was designated No. 14-08-001-3900 and became effective as of October 1, 1957.

Section 9 of the unit agreement provides that an initial test well shall be drilled until the upper portion of the San Andres formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities, or to a depth not in excess of 3000 feet. It also provides that within ninety days following completion of the aforesaid initial test well upon the unit area, Unit Operator shall commence the drilling of an additional well to said formation or depth. Thereafter, until the discovery of a deposit of unitized substances capable of being produced in paying quantities, Unit Operator is required to continue drilling diligently one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well. After completion of the two test wells mentioned above, the Director may modify the drilling requirements of said Section 9 by granting reasonable extensions of time when, in his opinion, such action is warranted.

The two test wells required by Section 9 of the unit agreement have been drilled. The initial test well, located 1980 feet from the north line and 560 feet from the east line of Section 29, Township 20 South, Range 26 East, N.M.P.M., was spudded September 30, 1957, and completed on January 27, 1958, at a total depth of 3000 feet, plugged back to 2487 feet, as a producing oil well with an initial flowing production natural of 12 barrels of 25.3° gravity oil and 117 barrels of water per day from the lower San Andres formation. Crude oil runs from the well totaled 59 barrels in January 1958, 185 barrels in February and 59 barrels in March. The well has been shut in since that time. The tops of geologic formations penetrated were: Queen, 427 feet; San Andres, 1384 feet; Bone Springs,

CONFORMED

COPY

2520 feet. Surface elevation was 3302 feet. Seven inch casing was set and cemented at 2562 feet, and perforated from 2460 to 2465 feet. This discovery of oil, although not sufficient to warrant the establishment of an initial participating area pursuant to Section 11 of the unit agreement, was encouraging.

The second test well, located 760 feet from the north line and 2080 feet from the east line of Section 29, Township 20 South, Range 26 East, N.M.P.M., was spudded March 28, 1958, and finished drilling May 31, 1958, at a total depth of 2502 feet after testing through the San Andres formation to the Delaware lime. The tops of geologic formations penetrated were: Queen, 447 feet; San Andres, 1388 feet; Delaware lime, 2433 feet. Surface elevation was 3337 feet. Seven inch casing was set and cemented at 2502 feet, and perforated from 2358 to 2378 feet and from 2452 to 2458 feet. On June 3, 1958, the upper perforations were acidized in two stages, first with 500 gallons and then with 2500 gallons, and the lower perforations were acidized with 500 gallons. On test the upper zone swabbed dry and the lower zone swabbed salt water with no shows of oil or gas. The well was shut in and temporarily abandoned on June 6, 1958.

Under the terms of the unit agreement the time interval allowed between drilling of wells would have expired on December 6, 1958, six months from the date tests were completed on the second test well.

On November 25, 1958, the Acting Director of the Geological Survey approved an application by Wilshire for a six months extension of time expiring June 6, 1959, within which to commence drilling a third test well under the Seven Rivers Hills Unit Agreement.

Wilshire then caused the third test well to be commenced May 29, 1959, located 1649 feet from the north line and 658 feet from the east line, or center of Lot 8, of Section 5, Township 21 South, Range 25 East, N.M.P.M. This well was drilled to a total depth of 10,663 feet, drilling ceased September 6, 1959. Following completion of drilling, several formation tests were made without finding production in paying quantities. The tops of geologic formations penetrated were: Queen, 460 feet; Bone Springs, 2630 feet; Wolfcamp, 7006 feet; Cisco, 8170 feet; Canyon, 8430 feet; Strawn, 8608 feet; Bend, 9056 feet; Morrow, 10,002 feet; Mississippian, 10,650 feet. Plugging and abandonment operations on the well were completed September 10, 1959.

While drilling the third test well a drill-stem test was made at depths of 9194 to 9237 feet in lime in the Pennsylvanian-Bend with the tool open 180 minutes, gas showed at the surface in three minutes and flowed at a maximum rate of 65,000 cubic feet per day. This showing was encouraging, but was not of sufficient character to warrant further testing in this particular hole. The major zone of interest in this well and the one now being studied as probably the best prospect for commercial production elsewhere on this unit is Morrow sand found in the interval from 10,050 to 10,340 feet. A drill-stem test from 10,000 to 10,155 feet recovered 200 feet gas cut mud plus 400 feet salt water. The microlog shows 13 feet of good porosity plus 42 feet of broken porosity in this sand section. Well control to the northwest and east indicates the presence of this sand with shows of gas being recorded. Further north in the Atoka Area five gas wells have been completed from sands of similar age.

Pursuant to Section 9 of the unit agreement the six months from completion of the third test well would expire March 10, 1960. Efforts are presently being made to evaluate fully the induction-electric logs, micrologs, and sonic logs run in the last test well, an integrated velocity survey made and the additional sub-surface geological data resulting from such drilling, together with the encouraging shows of gas in the Pennsylvanian formation particularly in relation to other wells drilled or being drilled in the general area. Additional time is needed to determine the feasibility and best possible location for an additional test well to the Pennsylvanian formation within the unit area.

Commissioner of Public Lands
Page 3
January 29, 1960

In view of the good faith evidenced by Unit Operator in testing the unit area by completion of the two initial test wells required and the drilling of an additional deep exploratory well through the Pennsylvanian formation, Wilshire Oil Company of Texas hereby respectfully requests approval of this application by the Commissioner of Public Lands of the State of New Mexico and by the Director of the United States Geological Survey for a six months extension of time expiring September 10, 1960, within which to commence drilling a fourth test well to test the Pennsylvanian formation under the Seven Rivers Hills Unit Agreement, or to initiate action to terminate the unit agreement.

In order to provide time for the contemplated additional drilling, Wilshire also respectfully requests the approval by the Commissioner of Public Lands of the State of New Mexico and by the Director of the United States Geological Survey of this application for an extension of the term of the Seven Rivers Hills Unit Agreement for one year so that the Seven Rivers Hills Unit Agreement shall remain in effect to July 1, 1961, and so long thereafter that unitized substances are capable of being produced in paying quantities as defined in Section 20 of said agreement. It may be noted that this unit agreement provided for an initial term of less than three years, October 1, 1957 to July 1, 1960, as compared to present practice under standard unit form allowing an initial term of five years.

Six copies of a revised Exhibit "B", dated January 29, 1960, are submitted herewith. The exhibit shows that the term of all Federal leases within the Seven Rivers Hills Unit area extend to or beyond July 1, 1961, the requested extension of term of the unit agreement.

The working interest owners under the Seven Rivers Hills Unit Agreement join in this application of Wilshire Oil Company of Texas by separate instrument in writing specifically referring hereto.

Very truly yours,

WILSHIRE OIL COMPANY OF TEXAS, UNIT OPERATOR

By /s/ Claude E. Peavy
Vice-President

Enclosures

APPROVED: Feb. 16, 1960

By /s/ M. E. Morgan
Commissioner of Public Lands
of the State of New Mexico

APPROVED: Mar. 18, 1960

By /s/ Arthur A. Baker
Acting Director
United States Geological Survey

The Undersigned working interest owners under the Seven Rivers Hills Unit Agreement, No. 14-08-001-3900, Eddy County, New Mexico, by counterpart hereby join in the application dated January 29, 1960, of Wilshire Oil Company of Texas, as Unit Operator, for an extension of time expiring September 10, 1960, within which to commence drilling an additional test well on the unit area to test the Pennsylvanian formation or to initiate action to terminate the unit agreement, and for an extension to July 1, 1961, of the term of the Seven Rivers Hills Unit Agreement.

WORKING INTEREST OWNERS

WILSHIRE OIL COMPANY OF TEXAS

Date: February 11, 1960 By /s/ Claude E. Peavy
Executive Vice-President

ATTEST:

/s/ Marion Dodds
Asst. Secretary
% Britalta Petroleum, Ltd.
717 Bamlett Building
Calgary, Alberta, Canada

CARPER DRILLING COMPANY, INC.

Date: _____ By _____
President

ATTEST:

Secretary
200 Carper Building
Artesia, New Mexico

PHILLIPS PETROLEUM COMPANY

Date: _____ By _____
Vice-President

ATTEST:

Assistant Secretary
Phillips Building
Bartlesville, Oklahoma

SINCLAIR OIL & GAS COMPANY

DATE: _____ By _____
Vice-President

ATTEST:

Assistant Secretary
P. O. Box 1470
Midland Savings & Loan Building
Midland, Texas

Dominion of Canada)
~~///STATE OF~~)
Province of Alberta) ss.
~~///COUNTY OF~~)

60

On the 11 day of February, 1958, A.D., personally appeared
before me CLAUDE E. PEAVY, who, being by me duly sworn, did say
that he is the Vice- President of WILSHIRE OIL COMPANY OF TEXAS
and that said instrument was signed in behalf of said corporation by authority
of its by-laws (or by resolution of its board of directors, as the case may be)
and said CLAUDE E. PEAVY acknowledged to me that said corporation
executed the same.

My Commission Expires:
at the Queen's pleasure

/s/ John Doe
Notary Public in and for Dominion of Canada
~~County, State of~~ Province of Alberta

STATE OF)
) ss.
COUNTY OF)

On the ____ day of _____, 1958, A.D., personally appeared
before me _____, who, being by me duly sworn, did say
that he is the ____ President of _____
and that said instrument was signed in behalf of said corporation by authority
of its by-laws (or by resolution of its board of directors, as the case may be)
and said _____ acknowledged to me that said corporation
executed the same.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
) ss.
COUNTY OF)

On the ____ day of _____, 1958, A.D., personally appeared
before me _____, who, being by me duly sworn, did say
that he is the ____ President of _____
and that said instrument was signed in behalf of said corporation by authority
of its by-laws (or by resolution of its board of directors, as the same may be)
and said _____ acknowledged to me that said corporation
executed the same.

My Commission Expires:

Notary Public in and for _____
County, State of _____

The Undersigned working interest owners under the Seven Rivers Hills Unit Agreement, No. 14-08-001-3900, Eddy County, New Mexico, by counterpart hereby join in the application dated January 29, 1960, of Wilshire Oil Company of Texas, as Unit Operator, for an extension of time expiring September 10, 1960, within which to commence drilling an additional test well on the unit area to test the Pennsylvanian formation or to initiate action to terminate the unit agreement, and for an extension to July 1, 1961, of the term of the Seven Rivers Hills Unit Agreement.

WORKING INTEREST OWNERS

WILSHIRE OIL COMPANY OF TEXAS

Date: _____ By _____
Vice-President

ATTEST:

Secretary
% Britalta Petroleum, Ltd.
717 Bamlett Building
Calgary, Alberta, Canada

CARPER DRILLING COMPANY, INC.

Date: 2-8-1960 By /s/ Marshall Rowley
Vice- President

ATTEST:

/s/ Glenn A. Caskey
Asst. Secretary
200 Carper Building
Artesia, New Mexico

PHILLIPS PETROLEUM COMPANY

Date: _____ By _____
Vice-President

ATTEST:

Assistant Secretary
Phillips Building
Bartlesville, Oklahoma

SINCLAIR OIL & GAS COMPANY

DATE: _____ By _____
Vice-President

ATTEST:

Assistant Secretary
P. O. Box 1470
Midland Savings & Loan Building
Midland, Texas

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

60

On the 8 day of February, 1958, A.D., personally appeared
before me Marshall Rowley, who, being by me duly sworn, did say
that he is the Vice President of Carper Drilling Company, Inc.
and that said instrument was signed in behalf of said corporation by authority
of its by-laws (or by resolution of its board of directors, as the case may be)
and said Marshall Rowley acknowledged to me that said corporation
executed the same.

My Commission Expires:
10-15-63

/s/ Chris Chapin
Notary Public in and for Eddy
County, State of New Mexico

STATE OF)
) ss.
COUNTY OF)

On the _____ day of _____, 1958, A.D., personally appeared
before me _____, who, being by me duly sworn, did say
that he is the _____ President of _____
and that said instrument was signed in behalf of said corporation by authority
of its by-laws (or by resolution of its board of directors, as the case may be)
and said _____ acknowledged to me that said corporation
executed the same.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
) ss.
COUNTY OF)

On the _____ day of _____, 1958, A.D., personally appeared
before me _____, who, being by me duly sworn, did say
that he is the _____ President of _____
and that said instrument was signed in behalf of said corporation by authority
of its by-laws (or by resolution of its board of directors, as the same may be)
and said _____ acknowledged to me that said corporation
executed the same.

My Commission Expires:

Notary Public in and for _____
County, State of _____

The Undersigned working interest owners under the Seven Rivers Hills Unit Agreement, No. 14-08-001-3900, Eddy County, New Mexico, by counterpart hereby join in the application dated January 29, 1960, of Wilshire Oil Company of Texas, as Unit Operator, for an extension of time expiring September 10, 1960, within which to commence drilling an additional test well on the unit area to test the Pennsylvanian formation or to initiate action to terminate the unit agreement, and for an extension to July 1, 1961, of the term of the Seven Rivers Hills Unit Agreement.

WORKING INTEREST OWNERS

WILSHIRE OIL COMPANY OF TEXAS

Date: _____ By _____
Vice-President

ATTEST:

Secretary
% Eritalta Petroleums, Ltd.
717 Bamlett Building
Calgary, Alberta, Canada

CARPER DRILLING COMPANY, INC.

Date: _____ By _____
President

ATTEST:

Secretary
200 Carper Building
Artesia, New Mexico

PHILLIPS PETROLEUM COMPANY

Date: February 19, 1960 By /s/ B. F. Stradley
Vice-President

ATTEST:

/s/ I. Huflod (I)
Assistant Secretary
Phillips Building
Bartlesville, Oklahoma

SINCLAIR OIL & GAS COMPANY

DATE: _____ By _____
Vice-President

ATTEST:

Assistant Secretary
P. O. Box 1470
Midland Savings & Loan Building
Midland, Texas

STATE OF OKLAHOMA §

COUNTY OF WASHINGTON §

The foregoing instrument was acknowledged before me this 19th day of
February, 1960, by B. F. Stradley, Vice-President
of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on behalf of said
corporation.

My Commission Expires:

1-21-62

/s/ Marlyn Liahoe
Notary Public in and for the State
of Oklahoma

The Undersigned working interest owners under the Seven Rivers Hills Unit Agreement, No. 14-08-001-3900, Eddy County, New Mexico, by counterpart hereby join in the application dated January 29, 1960, of Wilshire Oil Company of Texas, as Unit Operator, for an extension of time expiring September 10, 1960, within which to commence drilling an additional test well on the unit area to test the Pennsylvanian formation or to initiate action to terminate the unit agreement, and for an extension to July 1, 1961, of the term of the Seven Rivers Hills Unit Agreement.

WORKING INTEREST OWNERS

WILSHIRE OIL COMPANY OF TEXAS

Date: _____ By _____
Vice-President

ATTEST:

Secretary
% Britalta Petroleum, Ltd.
717 Bamlett Building
Calgary, Alberta, Canada

CARPER DRILLING COMPANY, INC.

Date: _____ By _____
President

ATTEST:

Secretary
200 Carper Building
Artesia, New Mexico

PHILLIPS PETROLEUM COMPANY

Date: _____ By _____
Vice-President

ATTEST:

Assistant Secretary
Phillips Building
Bartlesville, Oklahoma

SINCLAIR OIL & GAS COMPANY

DATE: Feb. 10, 1960 By /s/ B. L. Elston
Vice-President

ATTEST:

/s/ R. J. Silah (?)
Assistant Secretary
P. O. Box 1470
Midland Savings & Loan Building
Midland, Texas

STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

60

On the 10th day of February, 1958, A.D., personally appeared before me R. L. Elston, who, being by me duly sworn, did say that he is the Vice- President of SINCLAIR OIL & GAS COMPANY and that said instrument was signed in behalf of said corporation by authority of its by-laws (or by resolution of its board of directors, as the case may be) and said R. L. Elston acknowledged to me that said corporation executed the same.

My Commission Expires:
June 1, 1961

/s/ Betty C. Richardson
Notary Public in and for Midland
County, State of Texas

STATE OF)
) ss.
COUNTY OF)

On the _____ day of _____, 1958, A.D., personally appeared before me _____, who, being by me duly sworn, did say that he is the _____ President of _____ and that said instrument was signed in behalf of said corporation by authority of its by-laws (or by resolution of its board of directors, as the case may be) and said _____ acknowledged to me that said corporation executed the same.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
) ss.
COUNTY OF)

On the _____ day of _____, 1958, A.D., personally appeared before me _____, who, being by me duly sworn, did say that he is the _____ President of _____ and that said instrument was signed in behalf of said corporation by authority of its by-laws (or by resolution of its board of directors, as the same may be) and said _____ acknowledged to me that said corporation executed the same.

My Commission Expires:

Notary Public in and for _____
County, State of _____

P. O. Box 6721
Roswell, New Mexico

October 13, 1959

Wilshire Oil Company of Texas
c/o Mr. Foster Merrill
P. O. Box 933
Roswell, New Mexico

Gentlemen:

This will acknowledge receipt of the following documents relating to the Seven Rivers Hills unit agreement (No. 14-03-001-3900), Eddy County, New Mexico:

1-a. Five copies of a Ratification and Joinder to the unit agreement, executed by Phillips Petroleum Company. Exhibit "B" shows Phillips Petroleum Company owns all record title and working interest in State of New Mexico land unit tract 16 (NE $\frac{1}{4}$ SE $\frac{1}{4}$, W $\frac{1}{2}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$, and SW $\frac{1}{4}$ SE $\frac{1}{4}$ sec. 32, T. 20 S., R. 26 E., N.M.P.M.)

1-b. Five copies of a Ratification and Joinder to the unit operating agreement, executed by Phillips Petroleum Company, also relating to State of New Mexico land unit tract 16.

2-a. Five copies of a Ratification and Joinder to the unit agreement, executed by Mrs. R. E. Boyle and R. E. Boyle. The Bureau of Land Management has informed this office that Mrs. Boyle is the successful offeror for Federal oil and gas lease NE 066471 (to be issued), embracing the SE $\frac{1}{4}$ and NE $\frac{1}{4}$ SW $\frac{1}{4}$ sec. 5, T. 21 S., R. 25 E., N.M.P.M. Such land was formerly included in lease LC-070396, which expired on June 30, 1959. Exhibit "B" shows the land in question as unit tract 1.

2-b. Four copies of a Ratification and Joinder to the unit operating agreement, executed by Mrs. R. E. Boyle and R. E. Boyle also relating to Federal land unit tract 1.

By virtue of the Ratifications and Joinders listed as 1-a and 1-b above, State of New Mexico land unit tract 16 is considered effectively committed to the Seven Rivers Hills unit agreement, effective June 1, 1959, the first day of the month following filing of the Ratifications and Joinders.

By virtue of the Ratifications and Joinders listed as 2-a and 2-b above, Federal land unit tract 1 (lease BM 066471) is considered effectively committed to the Seven Rivers Hills unit agreement, effective as of the effective date of the lease.

Copies of the Ratifications and Joinders are being distributed to appropriate Federal offices for inclusion in the official case records. It is assumed you will furnish other interested parties with appropriate evidence of this action. One copy of each of the Ratifications and Joinders listed as 1-a, 1-b, and 2-a above is surplus to our needs and is returned herewith.

Very truly yours,

JOHN A. ANDERSON
Regional Oil and Gas Supervisor

Enclosures

Copy to: Wash. (w/cy of Joinders)
Artesia (w/cy of Joinders)
BIM-Santa Fe (w/cy of Joinders)
State Land Office, (Mrs. Rhea) (Letter only)
NMOCC (letter only)

P. O. Box 6721
Roswell, New Mexico

October 6, 1959

Hervay, Bow & Hinkle
Hinkle Building
Roswell, New Mexico

Gentlemen:

This will acknowledge receipt of the following documents relating to the Bell Lake unit agreement (No. 14-03-001-1066), Lea County, New Mexico:

1-a. Five copies of a Consent and Ratification of the unit agreement, executed by Malco Refineries, Inc. Revised Exhibit "B" shows Donald B. Anderson owns all record title and working interest in Federal land unit tract 1 (lease NM-039). However, by decision dated September 11, 1959, the Bureau of Land Management approved an assignment of lease NM-039 in its entirety from Anderson to Malco. Acceptance and Approval of Continental Oil Company, unit operator is affixed to each copy of the Ratification and Joinder.

1-b. Three copies of a Ratification and Joinder to the unit operating agreement, executed by Malco Refineries, Inc., also relating to Federal land unit tract 1.

2-a. Four copies of a Ratification and Joinder to the unit agreement, executed by Union Oil Company of California. Exhibit "B" shows Union Oil Company of California owns record title and working interest in State of New Mexico land unit tract No. 60. Approval and Consent of Continental Oil Company, unit operator, is affixed to each copy of the Ratification and Joinder.

2-b. Three copies of a Ratification and Joinder to the unit operating agreement, executed by Union Oil Company of California also relating to State land unit tract No. 60

3. Four copies of a Ratification and Joinder to the unit agreement, executed by William A. Schulte. While

revised Exhibit "B" shows Mr. Schulte owns no interest in Federal land unit tract 3, (lease MM-0587) your letter of September 23 states he has acquired an overriding royalty interest in said land. Acceptance and Approval of Continental Oil Company, unit operator, and Signal Oil and Gas Company, working interest owner of unit tract 3 is affixed to each copy of the Ratification and Joinder.

By virtue of the Ratifications and Joinders listed as 1-a and 1-b above, Federal land unit tract 1 (lease MM-039) is considered effectively committed to the Bell Lake unit agreement, effective October 1, 1959, the first day of the month following filing of the Ratifications and Joinders.

By virtue of the Ratifications and Joinders listed as 2-a and 2-b above, State land unit tract No. 60 is considered effectively committed to the Bell Lake unit agreement, effective October 1, 1959, the first day of the month following filing of the Ratifications and Joinders.

By virtue of the Ratifications and Joinders listed as No. 3 above, the overriding royalty interest in Federal land unit tract 3 owned by Mr. Schulte, is considered effectively committed to the Bell Lake unit agreement, effective October 1, 1959, the first day of the month following filing of the Ratifications and Joinders.

Copies of the Ratifications and Joinders are being distributed to appropriate Federal offices for inclusion in the official case records. It is assumed you will furnish other interested parties with appropriate evidence of this action. One copy of the Ratifications and Joinders listed as 1-a above is surplus to our needs and is returned herewith.

Very truly yours,

EDWIN M. THOMASSON
Acting Oil and Gas Supervisor

Enclosure

Copy to: Washington (w/cy of Joinders)
Artesia (w/cy of Joinders)
BIM-Santa Fe (w/cy of Joinders)
State Land Office, (Mrs. Rhea) (Letter only)
BEOCC (Letter Only)

File
1224

May 21, 1959

cc: Mr. R. B. Johnston It's Performance That Counts
FLITE-FUEL — TROP-ARTIC

CONSENT AND RATIFICATION OF UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF
THE SEVEN RIVERS HILLS UNIT AREA
COUNTY OF EDDY, STATE OF NEW MEXICO
NO. 14-08-001-3900

WHEREAS, heretofore on the 13th day of March, 1957
certain parties entered into a certain Unit Agreement covering the fol-
lowing described lands, to wit:

New Mexico Principal Meridian
Township 20 South, Range 26 East

	<u>Acres</u>
Section 19: Lots 3, 4, S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$	400.04
Sections 20, 21, 22: All	1,920.00
Section 27: NW $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$	240.00
Sections 28, 29: All	1,280.00
Section 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (all)	639.84
Section 31: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (all)	639.84
Sections 32, 33: All	1,280.00

Township 21 South, Range 25 East

Section 3: Lots 2, 3, 4, 5, 12, 13, NW $\frac{1}{4}$ SW $\frac{1}{4}$	246.31
Section 4: Lots 1 through 16, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$	876.80
Section 5: Lots 1 through 16, S $\frac{1}{2}$ (all)	917.98
Section 6: Lots 1 through 18, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ (all)	918.27
Section 7: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (all)	638.88
Section 8: N $\frac{1}{2}$, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$	600.00
Section 9: N $\frac{1}{2}$ NW $\frac{1}{4}$	80.00
Section 18: Lots 1, 2, 3, 4, E $\frac{1}{2}$ NW $\frac{1}{4}$, W $\frac{1}{2}$ NE $\frac{1}{4}$	317.92
Total	10,995.88

WHEREAS, Phillips Petroleum Company is the working interest
owner of Tract No. 16 set out in Exhibit "B" attached to said Unit Agree-
ment; and

WHEREAS, the Unit Agreement provides that after operations are
commenced thereunder the right of subsequent joinder by a working interest
owner is subject to such requirements or approvals, if any, pertaining to
such joinder as may be provided for in the Unit Operating Agreement; and

WHEREAS, by consent and ratification said Unit Operating Agree-
ment, executed by Phillips Petroleum Company and Wilshire Oil Company of
Texas, as operator, under said Unit Operating Agreement of even date
herewith, all requirements or approvals provided for in said Unit Opera-
ting Agreement have been satisfied as of date.

NOW, THEREFORE, for and in consideration of the premises and
other good and valuable consideration Phillips Petroleum Company does

hereby ratify and consent to all of the terms and provisions of said Unit Agreement as provided in Section 30 of said Unit Agreement.

EXECUTED this 13th day of May, 1959.

PHILLIPS PETROLEUM COMPANY

ATTEST:

[Signature]
Assistant Secretary

By R. B. Stewart
Vice President

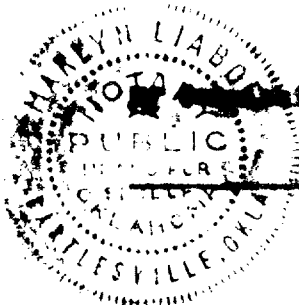
J.B.
OK as to form
6/17



STATE OF OKLAHOMA §

COUNTY OF WASHINGTON §

The foregoing instrument was acknowledged before me this 13th day of May, 1959, by R. B. Stewart, Vice President of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.



Notary Commission Expires:

21-62

Maryn L. Lishner
Notary Public in and for Washington County, Oklahoma.

CONSENT AND RATIFICATION OF UNIT OPERATING AGREEMENT
COVERING SEVEN RIVERS HILLS UNIT AREA
EDDY COUNTY, NEW MEXICO

W I T N E S S E T H:

WHEREAS, heretofore on the 13 day of March, 1957,
a certain Unit Agreement for the development and operation of the Seven
Rivers Hills Unit Area, located in the County of Eddy, State of New Mexico,
was entered into by and between certain of the owners of the unit area;
and

WHEREAS, said Unit Agreement has by instrument of even date
herewith been consented to and ratified by Phillips Petroleum Company, the
owner of the working interest in tract No. 16 as shown on Exhibit "B" of
said Unit Agreement; and

WHEREAS, certain owners of working interest included in said
Unit Agreement entered into a Unit Operating Agreement pursuant to the
terms of said Unit Agreement on the 13 day of March, 1957;
and

WHEREAS, Section No. 27 of said Unit Operating Agreement provides
in part that any working interest owner desiring to join subsequent to the
effective date thereof shall be permitted to join only in accord with such
terms and conditions as then may be agreeable to the unit operator; and

WHEREAS, Phillips Petroleum Company desires to ratify and con-
sent to the terms of and join in said Unit Operating Agreement as of the
date hereof, and on the following terms and conditions which are agreeable
to the Wilshire Oil Company of Texas as unit operator.

NOW, THEREFORE, for and in consideration of the premises and other
good and valuable consideration, Phillips Petroleum Company does hereby ratify
and consent to all of the terms and provisions of said Unit Operating Agree-
ment and join in said Unit Operating Agreement, subject only to the following
terms and conditions:

1. That nothing contained in said Unit Operating Agreement or this
Ratification shall change the rights and duties of Phillips Petroleum Company
under that certain Agreement executed by Carper Drilling Company and Phillips
Petroleum Company of even date hereof; and

2. Wilshire Oil Company of Texas as unit operator under said Unit Operating Agreement certifies that pursuant to the terms of Section 3 thereof working interest owners of an area of less than the area covered by the entire Unit Agreement did agree as to a manner of paying the cost of drilling and completing and/or plugging or abandoning all wells drilled heretofore on the unit area and such costs were paid and that no part of the cost or expense heretofore incurred in operations of the unit area will be charged against the interest of Phillips Petroleum Company; and

Further, Wilshire Oil Company of Texas as unit operator under said Unit Operating Agreement hereby signifies that the terms and conditions of this Ratification and Consent are in accordance with terms and conditions which are agreeable with it as unit operator within the meaning of Section 27 of said Unit Operating Agreement as of the date hereof.

EXECUTED this 14th day of May, 1959.

PHILLIPS PETROLEUM COMPANY

By R.B. Stewart
Vice President

J.B.
OK as to form
KNT

WILSHIRE OIL COMPANY OF TEXAS

By William Woods
Vice President

Asst. Secretary

STATE OF OKLAHOMA

COUNTY OF WASHINGTON

The foregoing instrument was acknowledged before me this

1st day of May, 1959, by R. B. Stewart
Vice-President of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on
behalf of said corporation.

My Commission Expires:

Marlene L. Lohr
Notary Public in and for
Washington County,
Oklahoma



DOMINION OF CANADA }
STATE OF }
PROVINCE OF ALBERTA }
COUNTY OF }

The foregoing instrument was acknowledged before me this

14th day of May, 1959, by Clyde N. Stone,
Vice President of WILSHIRE OIL COMPANY OF TEXAS, a Texas corporation,
on behalf of said corporation.

My Commission Expires:

is for life

Wm R. D. Dingle
Notary Public in and for
Province of Alberta



Supervisor, Oil and Gas Operations:

DESIGNATION OF AGENT

The undersigned is, on the records of the U. S. Geological Survey, Unit Operator of the Seven Rivers Hills Unit, No. 14-08-001-3900, embracing in part the hereinbelow described acreage, and hereby designates

NAME: PHILLIPS PETROLEUM COMPANY

ADDRESS: Bartlesville, Oklahoma

as its agent, with full authority to act in its behalf in complying with the terms of the Seven Rivers Hills Unit Agreement and regulations applicable thereto and on whom the supervisor or his representative may serve written or oral instructions in securing compliance with the Oil and Gas Operating Regulations with respect to all operations involving the following lands committed to said Seven Rivers Hills Unit Agreement:

Lot 8, Section 5, Township 21-South, Range 25-East,
N.M.P.M., Eddy County, State of New Mexico

It is understood that this Designation of Agent does not relieve the Unit Operator of responsibility or compliance with the terms of the leases, the Seven Rivers Hills Unit Agreement, and the Oil and Gas Operating Regulations. It is also understood that this Designation of Agent does not constitute an assignment of any interest in the leases involved.

In case of default on the part of the designated agent, the Unit Operator will make full and prompt compliance with all regulation lease terms or orders of the Secretary of the Interior or his representative.

The Unit Operator agrees promptly to notify the Oil and Gas Supervisor of any change in the designated agent.

UNIT OPERATOR:

WILSHIRE OIL COMPANY OF TEXAS

By

ATTEST: *By*

Marion Davis

(address)

May 14, 1959

(Date)

SUPERVISOR, OIL AND GAS OPERATIONS:

DESIGNATION OF OPERATOR

The undersigned is, on the records of the Bureau of Land Management, holder of oil and gas lease

DISTRICT LAND OFFICE: **New Mexico**
SERIAL NO.: **N. M. 03203**

and hereby designates

NAME: **Phillips Petroleum Company**
ADDRESS: **Bartlesville, Oklahoma**

as his operator and agent, with full authority to act in his behalf in complying with the terms of the lease and regulations applicable thereto and on whom the supervisor or his representative may serve written or oral instructions in securing compliance with the Oil and Gas Operating Regulations with respect to (describe acreage to which this designation is applicable):

**Lot 8, Section 5, Township 21-South, Range 25-East, N.M.P.M.
Eddy County, State of New Mexico**

It is understood that this designation of operator does not relieve the lessee of responsibility for compliance with the terms of the lease and the Oil and Gas Operating Regulations. It is also understood that this designation of operator does not constitute an assignment of any interest in the lease.

In case of default on the part of the designated operator, the lessee will make full and prompt compliance with all regulations, lease terms, or orders of the Secretary of the Interior or his representative.

The lessee agrees promptly to notify the oil and gas supervisor of any change in the designated operator.

WILSON OIL COMPANY OF TEXAS
(Signature of lessee) **Vice President****c/o Britalta Petroleum Limited**
630 Eighth Ave. S. W.
Calgary, Alberta, Canada.
(Address)**May 14, 1959**
(Date)**ILLEGIBLE**

JOHN OF THE COO
DEC 6 1958
FOSTER MORRELL
PETROLEUM CONSULTANT
NICKSON HOTEL BUILDING
ROSWELL, NEW MEXICO

December 5, 1958

Mr. Clyde M. Stone
Wilshire Oil Company of Texas
717 Banlett Building
Calgary, Alberta
Canada

Re: Seven Rivers Hills Unit
Eddy County, New Mexico
Order No. R-973
Case No. 1224

Dear Mr. Stone:

Enclosed is the original of letter dated December 2, 1958, from Mr. H. J. Duncan, advising that on November 25, the Acting Director of the U. S. Geological Survey approved the application of Wilshire Oil Company of Texas for a six (6) months extension of time expiring June 6, 1959, within which to commence drilling the third test well under the Seven Rivers Hills Unit Agreement, New Mexico, No. 14-08-001-3900.

Very truly yours,

COPY (Original Signed) Foster Morrell

Foster Morrell

FM/fs

cc: ✓ Mr. A. L. Porter, Jr. (enclosure)
New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico
cc: Mrs. Marian M. Rhea (enclosure)
State Land Office
P. O. Box 971
Santa Fe, New Mexico

Enclosure



UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY
WASHINGTON 25, D. C.

IN REPLY REFER TO:

RECEIVED DEC 5 1958

DEC 2 1958

1224

Wilshire Oil Company of Texas
c/o Mr. Foster Morrell
Post Office Box 933
Roswell, New Mexico

Gentlemen:

On November 25, 1958, Arthur A. Baker, Acting Director of the Geological Survey, approved your application for a six-month extension of time expiring June 6, 1959, within which to commence drilling the third test well under the Seven Rivers Hills unit agreement, New Mexico, No. 14-08-001-3900.

It is assumed that you will furnish the State of New Mexico or any other interested principal with whatever evidence of this approval is deemed appropriate.

Inasmuch as only three executed copies of the application were submitted, we are unable to furnish you an approved copy.

Very truly yours,

For the Director

MAIN OFFICE CCC

1957 OCT 7 AM 7:56

October 7, 1957

file 1224
Re: Proposed Seven Rivers
Hills Unit
Eddy County, New Mexico

Wilshire Oil Company of Texas
Leggett Building
Midland, Texas

Attention Frank W. Lake

Gentlemen:

In response to Foster Morrell's letter of September 13, 1957, we wish to advise that this company declines to join in the Seven Rivers Hills Unit as proposed by you. Inasmuch, as our investment in the acreage which you desire to include in the unit is a part of our exploration program aimed at evaluating the deeper horizons, we deem it neither in the best interests of our company, nor of the public, that such deeper evaluation be handicapped, if not prevented, by the contribution of our acreage to a shallow plan of exploration.

At the meeting in your offices July 15, our company representatives presented a proposal which our management would consider whereby we would join the unit as you propose with certain technical changes agreeable to you. Whereby, under a modified operating agreement, our company would conduct a geophysical survey with an option to earn one-half of your deep rights by the drilling of a deep test. As you may recall, this proposal was declined, however, if you thought such a proposal could be concluded, we would still attempt to work out such a program.

The extreme variance in costs from shallow to deep drilling as considered here would make it seem unwise to expect the same unit members interested in drilling shallow tests to be willing to participate in deep drilling. Neither would a prudent operator thin out his deep rights over a large area when it would appear probable that should he propose a deep test, his only protection

Wilshire Oil Company of Texas
October 7, 1957

in risking an extremely large investment in behalf of the other majority interest owners, would be only 200 percent cost recovery out of any production.

We are certainly in favor of unitization for the conservation of oil and gas and desire not to delay any federal unit operation. In this instance, we regret that we are unable to justify our participation in the proposed unit.

Yours very truly,

ORIGINAL SIGNED BY
R. W. BARKER
R. W. Barker
Division Landman


RWB:cm
cc:

Foster Morrell
Nickson Hotel
Roswell, New Mexico

Honorable Murry E. Morgan
Commissioner of Public Lands
State Capital Building
Santa Fe, New Mexico

Honorable A. L. Porter, Jr.
Oil conservation Commission
State Capital Building
Santa Fe, New Mexico.

R. B. Johnston
C. F. Keller

← COPY FOR 

MAIN OFFICE OCC

1957 JUL 30 AM 8:28

July 29, 1957

In reply refer to:
Unit Division

File 1224

Mr. Foster Morrell
P. O. Box 933
Roswell, New Mexico

Re: Seven Rivers Hills Unit Agreement -
Wilshire Oil Company of Texas,
Operator

Dear Mr. Morrell:

The Commissioner of Public Lands has approved the
Seven Rivers Hills Unit Agreement as of July 29, 1957.

We are handing you herewith fourteen executed
Certificates of Approval.

Also enclosed is a temporary receipt in the amount
of \$95.00, covering the filing fee for nineteen sections
or parts thereof within the Seven Rivers Hills Unit Area.

Our Official Receipt will be mailed to you as soon
as it is issued.

Very truly yours,

MURRAY E. MORGAN
Commissioner of Public Lands

By: Ted Bilberry, Supervisor
Oil and Gas Department

MEM:MMR/m
Enc.

cc: OCC-Santa Fe
USGS-Roswell

March 8, 1957

File 1034

In reply refer to:
Unit Division

Mr. Foster Morrell
Petroleum Consultant
P. O. Box 93
Roswell, New Mexico

Re: Seven Rivers Hills Unit -
Eddy County, New Mexico

Dear Mr. Morrell:

This is to advise you that the revised form of Seven Rivers Hills Unit Agreement was approved as to form and context by Mr. Oscar Jordan, attorney for this office, as of March 7, 1957.

Very truly yours,

MURRAY E. MORGAN
Commissioner of Public Lands

By: Ted Bilberry, Supervisor
Oil and Gas Department

MEM:MMR/m

cc: OCC-Santa Fe

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

April 9, 1957

Mr. Foster Morrell
P.O. Box 933
Roswell, New Mexico

Dear Sir:

We enclose two copies of Order R-973 issued April 5, 1957, by the Oil Conservation Commission in Case 1224, which was heard on March 20th at Santa Fe.

Very truly yours,

A. L. Porter, Jr.
Secretary - Director

bp
Encls.

C
O
P
Y

State of New Mexico

OFFICE OF THE

Commissioner of Public Lands



March 8, 1957

Santa Fe

MURRAY E. MORGAN
Commissioner

In reply refer to:
Unit Division

Mr. Foster Morrell
Petroleum Consultant
P. O. Box 93
Roswell, New Mexico

Re: Seven Rivers Hills Unit -
Eddy County, New Mexico

Dear Mr. Morrell:

This is to advise you that the revised form of Seven Rivers Hills Unit Agreement was approved as to form and context by Mr. Oscar Jordan, attorney for this office, as of March 7, 1957.

Very truly yours,

MURRAY E. MORGAN
Commissioner of Public Lands

By:

Ted Bilberry
Ted Bilberry, Supervisor
Oil and Gas Department

MEM:MMR/m

cc: OCC-Santa Fe

BEFORE THE
OIL COMMISSION OF NEW MEXICO
SANTA FE, NEW MEXICO
W. S. ... EXHIBIT No. 8
CASE 1224

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

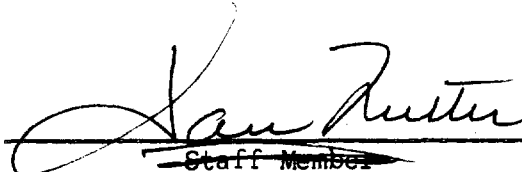
Date 3/27/57

CASE 1224

Hearing Date 3/20/57

My recommendations for an order in the above numbered cases are as follows:

Enter an order approving
Welshire's Seven Rivers Hills Unit
in Eddy County, New Mexico.
They own 9675.88 acres ^{or 87.99%} out of
a total of 10995.88 acres and
have committed all of their own acreage
to the unit. Other working interest
owners have been invited to
join and it is believed that they
will, according to the testimony.
There were no objections to the
unit voiced at the hearing.


~~Staff Member~~
Examiner

DSN

For ~~Examination~~
recomm

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

Date ~~3/25/57~~ 3/25/57

CASE 1224

Hearing Date 10 am on 3/25/57 @ SK
before DSN

My recommendations for an order in the above numbered cases are as follows:

OK to write order of approval
of unit.

Warren Mankin
Staff Member

DOCKET: EXAMINER HEARING MARCH 20, 1957

Oil Conservation Commission 10:00 a.m., Mabry Hall, State Capitol, Santa Fe

The following cases will be heard before Daniel S. Nutter, Examiner:

- CASE 1224: Application of Wilshire Oil Company of Texas for approval of its proposed Seven Rivers Hills Unit Agreement located in Eddy County, New Mexico, in accordance with Rule 507 of the New Mexico Oil Conservation Commission Statewide Rules and Regulations. Applicant, in the above-styled cause, seeks an order granting approval of its Seven Rivers Hills Unit Agreement embracing 10,995.88 acres, more or less, of federal and state lands situated in all or portions of Sections 19, 20, 21, 22, 27, 28, 29, 30, 31, 32 and 33, Township 20 South, Range 26 East, and all or portions of Sections 3, 4, 5, 6, 7, 8, 9 and 18, Township 21 South, Range 25 East, all in Eddy County, New Mexico.
- CASE 1225: Application of Moab Drilling Company for an order authorizing a pilot waterflood project in the High Lonesome Pool, Eddy County, New Mexico, in exception to Rule 701 of the New Mexico Oil Conservation Commission Statewide Rules and Regulations, and further, approval for the drilling of several unorthodox locations for water injection wells in said pool. Applicant, in the above-styled cause, seeks an order authorizing a pilot waterflood project in the Queen formation of the High Lonesome Pool, said project to be effected by means of water injection through the drilling of approximately six wells in Sections 15 and 16, Township 16 South, Range 29 East, Eddy County, New Mexico. Applicant also seeks Commission approval for the drilling of these six unorthodox locations to serve as the water injection wells in the High Lonesome Pool.
- CASE 1226: Application of Magnolia Petroleum Company for permission to move distillate off the lease before being measured, to produce more than eight wells into a single tank battery and for permission to commingle distillate from the Blanco Mesaverde Gas Pool and an undesignated Pictured Cliffs Gas Area in Rio Arriba County, New Mexico, in exception to Rules 303, 304 and 309 of the New Mexico Oil Conservation Commission Rules and Regulations. Applicant, in the above-styled cause, seeks an order to move and commingle the distillate produced from the Pictured Cliffs and Mesaverde formations from its Cheney-Federal lease covering SE/4, SE/4 NE/4, and E/2 SW/4 Section 4, E/2 and SW/4 Section 8, W/2 and W/2 E/2 Section 9, and All Sections 16 and 17, Township 26 North, Range 2 West, to a separate tank battery on its

CASE 1226:
Continued

Jicarilla "H" Lease in the SE/4 of Section 2, Township 26 North, Range 3 West; applicant further desires to move the distillate produced from the Pictured Cliffs and Mesaverde formations from its Jicarilla "D" Lease covering All Sections 13, 14, 23, and 24, Township 26 North, Range 3 West, to its Jicarilla "H" Lease, covering All Sections 1, 2, 11, and 12, Township 26 North, Range 3 West, and to commingle the production from the said two leases in a common tank battery in the SE/4 of Section 2, Township 26 North, Range 3 West; Applicant further desires to move distillate produced from the Pictured Cliffs and Mesaverde formations from its Jicarilla "E" Lease, covering All Sections 11, 12, 13, 14, and the S/2 of Section 15, Township 27 North, Range 3 West, and its Jicarilla "F" Lease, covering All Sections 22, 23, 24, and 27, Township 27 North, Range 3 West, to its Jicarilla "G" Lease covering All Sections 25, 26, 35, and 36, Township 27 North, Range 3 West, and to commingle the production from the said three leases in a common tank battery in the SE/4 Section 26, Township 27 North, Range 3 West, all in the Blanco Mesaverde Gas Pool and an undesignated Pictured Cliffs Gas Area, Rio Arriba County, New Mexico.

ir/

Corr-1224

FOSTER MORRELL
PETROLEUM CONSULTANT
NICKSON HOTEL BUILDING
ROSWELL, NEW MEXICO

February 26, 1957

Mr. A. L. Porter, Jr.
Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Re: Seven Rivers Hills Unit
Eddy County, New Mexico

Dear Mr. Porter:

Transmitted herewith is a copy of the proposed unit agreement for the Seven Rivers Hills Unit Area, Eddy County, New Mexico, with Exhibits "A" and "B" attached. Wilshire Oil Company of Texas is the unit operator.

The Acting Director, U. S. Geological Survey, by letter dated December 4, 1956, copy attached, designated 10,995.88 acres of land in T. 20 S., R. 26 E., and T. 21 S., R. 25 E., N.M.P.M., as a logical unit, to be known as the Seven Rivers Hills Unit Area, and approved the form of unit agreement.

Wilshire Oil Company of Texas hereby respectfully requests the approval of the unit agreement by the Oil Conservation Commission of New Mexico, and for such purpose petitions said Commission to enter this case on the docket for the regular hearing on March 14, 1957, or for an examiner hearing to be held on or about that date, whichever is preferable or more convenient to you.

Very truly yours,

WILSHIRE OIL COMPANY OF TEXAS

By Foster Morrell
Foster Morrell
Its Representative

FM/as
Enclosures

cc/ Mr. Clyde N. Stone
Wilshire Oil Company of Texas
Leggett Building
Midland, Texas



UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY
WASHINGTON 25, D. C.

DEC 4 1956

RECEIVED DEC 10 1956

Mr. Foster Morrell, Agent
Wilshire Oil Company of Texas
P. O. Box 933
Roswell, New Mexico

Dear Sir:

Reference is made to your application of October 24, 1956, filed with the Oil and Gas Supervisor, Roswell, New Mexico, requesting designation of 10,995.88 acres in Eddy County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act, as amended. Reference is also made to the three copies of a proposed form of agreement filed with the application for preliminary approval.

Pursuant to the regulations of December 22, 1950, 30 C.F.R., 226.3, the following described land is designated as a logical unit, to be known as the Seven Rivers Hills unit area:

New Mexico Principal Meridian
Township 20 South, Range 26 East

	Acres
Section 19: Lots 3,4, S $\frac{1}{2}$ E $\frac{1}{2}$, E $\frac{1}{2}$ S $\frac{1}{2}$, SE $\frac{1}{4}$	400.04
Sections 20, 21, 22: All	1,920.00
Section 27: NW $\frac{1}{4}$, W $\frac{1}{2}$ S $\frac{1}{2}$	240.00
Sections 28, 29: All	1,280.00
Section 30: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (all)	639.84
Section 31: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (all)	639.84
Sections 32, 33: All	1,280.00

Township 21 South, Range 25 East


Section 3: Lots 2,3,4,5,12,13, NW $\frac{1}{2}$ SW $\frac{1}{2}$	246.31
Section 4: Lots 1 through 16, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{2}$ SE $\frac{1}{4}$	876.80
Section 5: Lots 1 through 16, S $\frac{1}{2}$ (all)	917.98
Section 6: Lots 1 through 18, E $\frac{1}{2}$ SW $\frac{1}{2}$, SE $\frac{1}{4}$ (all)	918.27
Section 7: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (all)	638.88
Section 8: N $\frac{1}{2}$, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{2}$ SE $\frac{1}{4}$	600.00
Section 9: NW $\frac{1}{4}$	80.00
Section 18: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, W $\frac{1}{2}$ NE $\frac{1}{4}$	317.92
	<u>10,995.88</u>

The proposed test program of two wells to test the upper portion of the San Andres formation or to a depth of 3000 feet is deemed acceptable.

The form of agreement substantially follows the standard form including modifications necessary to meet the requirements of the State of New Mexico and to conform with Public Law 555 (68 Stat. 585) and Executive Order No. 10557 (19 F.R., 5655). Other modifications heretofore approved for the San Juan 25-2 unit agreement have also been included. The proposed form will be acceptable if altered as indicated by red pencil. One copy so marked is returned herewith, one copy is being furnished the Oil and Gas Supervisor, and one copy is retained.

In the absence of any objections not now apparent, a duly executed agreement identical with the above mentioned form will be approved if submitted within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted which, in my opinion, does not have the full commitment of sufficient lands to afford effective control of unit operations. When the executed agreement is transmitted to the Supervisor for approval, include the latest status of all Federal acreage showing the current record owner of all leases.

Very truly yours,



Acting Director

Enclosure

FOSTER MORRELL
PETROLEUM CONSULTANT
NICKSON HOTEL BUILDING
ROSWELL, NEW MEXICO

February 26, 1957

Mr. A. L. Porter, Jr.
Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Re: Seven Rivers Hills Unit
Eddy County, New Mexico

Dear Mr. Porter:

Transmitted herewith is a copy of the proposed unit agreement for the Seven Rivers Hills Unit Area, Eddy County, New Mexico, with Exhibits "A" and "B" attached. Wilshire Oil Company of Texas is the unit operator.

The Acting Director, U. S. Geological Survey, by letter dated December 4, 1956, copy attached, designated 10,995.88 acres of land in T. 20 S., R. 26 E., and T. 21 S., R. 25 E., N.M.P.M., as a logical unit, to be known as the Seven Rivers Hills Unit Area, and approved the form of unit agreement.

Wilshire Oil Company of Texas hereby respectfully requests the approval of the unit agreement by the Oil Conservation Commission of New Mexico, and for such purpose petitions said Commission to enter this case on the docket for the regular hearing on March 14, 1957, or for an examiner hearing to be held on or about that date, whichever is preferable or more convenient to you.

Very truly yours,

WILSHIRE OIL COMPANY OF TEXAS

By Foster Morrell
Foster Morrell
Its Representative

FM/as
Enclosures

cc/ Mr. Clyde N. Stone
Wilshire Oil Company of Texas
Leggett Building
Midland, Texas



UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY
WASHINGTON 25, D. C.

DEC 4 1956

Mr. Foster Morrell, Agent
Wilshire Oil Company of Texas
P. O. Box 933
Roswell, New Mexico

Dear Sir:

Reference is made to your application of October 24, 1956, filed with the Oil and Gas Supervisor, Roswell, New Mexico, requesting designation of 10,995.88 acres in Eddy County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act, as amended. Reference is also made to the three copies of a proposed form of agreement filed with the application for preliminary approval.

Pursuant to the regulations of December 22, 1950, 30 C.F.R., 226.3, the following described land is designated as a logical unit, to be known as the Seven Rivers Hills unit area:

New Mexico Principal Meridian
Township 20 South, Range 26 East

	<u>Acres</u>
Section 19: Lots 3,4, S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$	400.04
Sections 20, 21, 22: All	1,920.00
Section 27: NW $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$	240.00
Sections 28, 29: All	1,280.00
Section 30: Lots 1,2,3,4, E $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ (all)	639.84
Section 31: Lots 1,2,3,4, E $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ (all)	639.84
Sections 32, 33: All	1,280.00

Township 21 South, Range 25 East

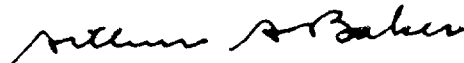
Section 3: Lots 2,3,4,5,12,13, NW $\frac{1}{4}$ SW $\frac{1}{4}$	246.31
Section 4: Lots 1 through 16, SE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{2}$ SE $\frac{1}{4}$	876.80
Section 5: Lots 1 through 16, S $\frac{1}{2}$ (all)	917.98
Section 6: Lots 1 through 18, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ (all)	918.27
Section 7: Lots 1,2,3,4, E $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ (all)	638.88
Section 8: N $\frac{1}{2}$, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{2}$ SE $\frac{1}{4}$	600.00
Section 9: N $\frac{1}{2}$ NW $\frac{1}{4}$	80.00
Section 16: Lots 1,2,3,4, E $\frac{1}{2}$ NE $\frac{1}{4}$, W $\frac{1}{2}$ NE $\frac{1}{4}$	317.92
	<u>10,995.88</u>

The proposed test program of two wells to test the upper portion of the San Andres formation or to a depth of 3000 feet is deemed acceptable.

The form of agreement substantially follows the standard form including modifications necessary to meet the requirements of the State of New Mexico and to conform with Public Law 555 (68 Stat. 585) and Executive Order No. 10557 (19 F.R., 5655). Other modifications heretofore approved for the San Juan 25-2 unit agreement have also been included. The proposed form will be acceptable if altered as indicated by red pencil. One copy so marked is returned herewith, one copy is being furnished the Oil and Gas Supervisor, and one copy is retained.

In the absence of any objections not now apparent, a duly executed agreement identical with the above mentioned form will be approved if submitted within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted which, in my opinion, does not have the full commitment of sufficient lands to afford effective control of unit operations. When the executed agreement is transmitted to the Supervisor for approval, include the latest status of all Federal acreage showing the current record owner of all leases.

Very truly yours,



Acting Director

Enclosure

UNIT AGREEMENT
SEVEN RIVERS HILLS UNIT AREA
EDDY COUNTY, NEW MEXICO

Preliminary Recitals	1
Section 1 - Enabling Act and Regulations	2
Section 2 - Unit Area	2
Section 3 - Unitized Land and Unitized Substances	5
Section 4 - Unit Operator	5
Section 5 - Resignation or Removal of Unit Operator	5
Section 6 - Successor Unit Operator	6
Section 7 - Accounting Provisions and Unit Operating Agreement.	7
Section 8 - Rights and Obligations of Unit Operator	7
Section 9 - Drilling To Discovery	8
Section 10 - Plan of Further Development and Operation	9
Section 11 - Participation After Discovery	10
Section 12 - Allocation of Production	12
Section 13 - Development or Operation of Non-Participating Land or Formations and Drilling of Wells Not Mutually Agreed Upon	12
Section 14 - Royalty Settlement	13
Section 15 - Rental Settlement	14
Section 16 - Conservation	15
Section 17 - Drainage	15
Section 18 - Leases and Contracts Conformed and Extended	15
Section 19 - Covenants Run With Land	18
Section 20 - Effective Date and Term	18
Section 21 - Rate of Prospecting, Development, and Production	19
Section 22 - Conflict of Supervision	19
Section 23 - Appearances	20
Section 24 - Notices	20
Section 25 - No Waiver of Certain Rights	20
Section 26 - Unavoidable Delay	20
Section 27 - Fair Employment	21
Section 28 - Loss of Title	21
Section 29 - Non-Joinder and Subsequent Joinder	22
Section 30 - Counterparts	22

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE SEVEN RIVERS HILLS UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the _____ day of _____, 195__, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an act of the Legislature (Chapter 88, Laws 1943) to consent to and approve the development or operation of lands of the State of New Mexico under this agreement; and

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

WHEREAS, the parties hereto hold sufficient interests in the Seven Rivers Hills 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:

1. ENABLING ACT AND REGULATIONS.

The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of New Mexico are hereby accepted and made a part of this agreement.

2. UNIT AREA.

The following-described land is hereby designated and recognized as constituting the unit area:

<u>New Mexico Principal Meridian</u> <u>Township 20 South, Range 26 East</u>		<u>Acres</u>
Section 19: Lots 3,4, S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$		400.04
Sections 20, 21, 22: All		1,920.00
Section 27: NW $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$		240.00
Sections 28, 29: All		1,280.00
Section 30: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (all)		639.84
Section 31: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (all)		639.84
Sections 32, 33: All		1,280.00
<u>Township 21 South, Range 25 East</u>		
Section 3: Lots 2,3,4,5,12,13, NW $\frac{1}{4}$ SW $\frac{1}{4}$		246.31
Section 4: Lots 1 through 16, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$		876.80
Section 5: Lots 1 through 16, S $\frac{1}{2}$ (all)		917.98
Section 6: Lots 1 through 18, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ (all)		918.27
Section 7: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (all)		638.88
Section 8: N $\frac{1}{2}$, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$		600.00
Section 9: N $\frac{1}{2}$ NW $\frac{1}{4}$		80.00
Section 18: Lots 1,2,3,4, E $\frac{1}{2}$ NW $\frac{1}{4}$, W $\frac{1}{2}$ NE $\frac{1}{4}$		317.92
Total		10,995.88

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of 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. Exhibits "A" and

"B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner," and not less than six copies of the revised exhibits shall be filed with the Supervisor and copies thereof shall be filed with the Commissioner and the New Mexico Oil Conservation Commission, hereinafter referred to as the "Commission."

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, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner;

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director," or on demand of the Commissioner, after preliminary concurrence of the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Commission, the Commissioner, and the Supervisor, and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that thirty 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 Commission, the Commissioner, and the Supervisor evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction, and with appropriate joinders.

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

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys, however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within five years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 7 years after said first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "Unavoidable Delay" time shall be made by Unit Operator and subject to approval of the Commissioner and the Director. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Commissioner and the Director and promptly notify all parties in interest.

If conditions warrant extension of the 7-year period specified in this subsection 2(e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty interests of the United States), on a total-nonparticipating-acreage basis, respectively, with approval of the Commissioner and the Director, provided such extension application is submitted to the Commissioner and the

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys, however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within five years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 1 years after said first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "Unavoidable Delay" time shall be made by Unit Operator and subject to approval of the Commissioner and the Director. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Commissioner and the Director and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this subsection (e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty interests of the United States), on a total-nonparticipating-acreage basis, respectively, with approval of the Commissioner and the Director, provided such extension application is submitted to the Commissioner and the

Director not later than 60 days prior to the expiration of said 7-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES.

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

4. UNIT OPERATOR.

Wilshire Oil Company of Texas, a Delaware corporation with offices at Midland, Texas, is hereby designated as Unit Operator and by signature hereto as Unit Operator 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 reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR.

Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Commission, the Commissioner, and the Director, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and by the Commission as to other lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area

Director not later than 60 days prior to the expiration of said ⁷10-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES.

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

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Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Commission, the Commissioner, and the Director, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and by the Commission as to other lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area

established hereunder is in existence, provided, that such resignation shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by 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 and the Director.

At any time for any reason whatsoever there is no Unit Operator, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than thirty days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other 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.

6. SUCCESSOR UNIT OPERATOR.

Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or until a participating area shall have been established, 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 seventy-five percent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners 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 and the Director. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner and the Director at their election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.

Costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements, entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as 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 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 unit agreement, and in case of any inconsistency or conflict between the unit agreement and the unit operating agreement, this unit agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor prior to approval of this unit agreement by the Director.

8. 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. 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.

9. DRILLING TO DISCOVERY.

Within six months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor if on Federal land or the Commission if on State or patented land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the upper portion of the San Andres formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if on Federal land or the Commissioner if on State land or the Commission if on patented land that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 3000 feet. Within ninety days following completion of the aforesaid initial test well upon the unit area, Unit Operator shall commence the drilling of an additional well and shall thereafter continue drilling operations thereon to said formation or depth at a location selected by Unit Operator and approved by the Supervisor if on Federal land or the Commission if on State or patented land, so spaced within the unit area as to determine so far as may be practicable the productive acreage in the San Andres and shallower formations underlying said unit area. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling

during the period pending such resignation becoming effective in order to comply with the requirements of this section. After completion of the two test wells mentioned above, the Director may modify the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted.

Upon failure to comply with the drilling provisions of this section, the Commissioner and the Director may, after reasonable notice to the Unit Operator, and each working interest owner, lessee, and lessor at their last known addresses, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION.

Within six months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Commission, the Commissioner, and the Supervisor an acceptable plan of development and operation for the unitized land which, when approved by the Commission, the Commissioner, and the Supervisor, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. From time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Commission, the Commissioner, and the Supervisor a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Commission, the Commissioner, and the Supervisor may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Commission, the Commissioner, and the Supervisor. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of

development. The Commissioner and the Supervisor are authorized to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Commission, the Commissioner, and the Supervisor, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY.

Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Commissioner or the Supervisor, the Unit Operator shall submit for approval by the Commission, the Commissioner, and the Director a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Commission, the Commissioner, and the Director to constitute a participating area, effective as of the date of completion of the well, or the effective date of this unit agreement, whichever is later. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Commission, the Commissioner and the Director. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first

of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Commission, the Commissioner, and the Director as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the United States and the State of New Mexico, which shall be determined by the Supervisor and the Commissioner and the amount thereof deposited as directed by the Supervisor, and the Commissioner, respectively, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor as to wells on Federal land, the Commissioner as to wells on State land, and the Commission as to patented land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well, for the purposes of settlement among all parties other than working interest owners, shall be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION.

All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Commission, the Commissioner, and the Supervisor, or unavoidably lost, shall be deemed to be produced equally on the acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, and overriding royalty, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS AND DRILLING OF WELLS NOT MUTUALLY AGREED UPON.

Any party or parties hereto owning or controlling the working interests or a majority of the working interests in any unitized land having thereon a regular well location may, with the approval of the Supervisor as to Federal land, or the Commission as to State land and privately-owned land, and subject to the provisions of the unit operating agreement, at such party's sole risk, cost and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has

been established if such location is not within said participating area, or drill any well not mutually agreed to by all interested parties, unless within ninety days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement, and the party or parties paying the cost of drilling such well shall be reimbursed as provided in the unit operating agreement for the cost of drilling such well, and the well shall thereafter be operated by Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT.

The United States and the State of New Mexico and all royalty owners who, under existing contracts, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, 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 royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area of the lands being operated hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commission, the Commissioner, and the Supervisor, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and 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 the plan of operations or as may otherwise be consented to by the Commission, the Commissioner, and the Supervisor, as conforming to good petroleum engineering practice, and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

Royalty due on account of State and privately-owned lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

15. RENTAL SETTLEMENT.

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

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases.

With respect to any lease on non-Federal land, if and when committed to this agreement, containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the terms thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included within a participating area.

16. 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 or Federal law or regulation.

17. 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, including wells on adjacent unit areas, or with the consent of the Director or the Commissioner, respectively, pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the Supervisor for Federal lands or as approved by the Commissioner for State lands.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED.

The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas of lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary as to Federal leases and the Commissioner as to State leases shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect

thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary and the Commissioner, or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land.

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands other than those of the United States, committed to this agreement, which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement; provided, however, each such lease, sublease or contract, where not already extended by production, shall only be extended in the event unitized substances are capable of being produced from some part of the lands embraced in such lease committed to this agreement, or some part of said lands are committed to a participating area prior to the expiration of the primary term of such lease, sublease or contract. Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or applicable law, shall continue in full force and effect thereafter.

(e) Any Federal lease for a fixed term of twenty years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such lease remains subject hereto, provided, that production is had in paying quantities under this agreement prior to the expiration date of the term of such lease.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(b) of the Act of February 25, 1920, as amended by the Act of July 29, 1954, (68 Stat. 583,585): "Any (Federal) lease hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(h) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Provided, however, 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

continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(b) of the Act of February 25, 1920, as amended by the Act of July 29, 1954, (68 Stat. 583, 585): "Any (Federal) lease hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(h) 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, provided, however, termination of this agreement shall not affect any such lease which pursuant to the terms thereof or applicable law shall continue in full force and effect thereafter.

(i) Any lease, other than a Federal 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 provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts. Provided, however, 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, or from a well spacing unit defined or approved by the Commission including some part of the lands embraced in such lease, committed to this agreement, or if production in paying quantities is being produced from some part of the lands embraced in such lease outside this unit area, at the expiration of

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.

19. COVENANTS RUN WITH LAND.

The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon the 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.

20. EFFECTIVE DATE AND TERM.

This agreement shall become effective upon approval by the Commissioner and the Director, or their duly authorized representatives, as of the first day of the month following approval by the Director and shall remain in effect until July 1, 1960, and so long thereafter as unitized substances can be produced in paying quantities, i.e., in this particular instance in quantities sufficient to pay for the costs of producing same from wells on unitized land within any participating area established hereunder 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, or it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than seventy-five percent, on an acreage basis, of the owners of working interests signatory

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, or on a well spacing unit defined or approved by the Commission including 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 lands embraced therein, and so long thereafter as unitized substances in paying quantities are being produced from any portion of said lands.

19. COVENANTS RUN WITH LAND.

The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon the 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.

20. EFFECTIVE DATE AND TERM.

This agreement shall become effective the first day of the month following approval by the Director or his duly authorized representative and shall remain in effect until July 1, 1960, and so long thereafter as unitized substances can be produced in paying quantities, i.e., in this particular instance in quantities sufficient to pay for the costs of producing same from wells on unitized land within any participating area established hereunder 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, or it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than seventy-five percent, on an acreage basis, of the owners of working interests signatory

hereto, with the approval of the Commissioner and the Director; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION.

All unit production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately-owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

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

22. 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 provision thereof to the extent that the said Unit Operator, working interest owners or any of them are hindered, delayed or prevented from complying therewith by reason of 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 thing concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions

of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

23. APPEARANCES.

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

24. NOTICES.

All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered 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 may have furnished in writing to party sending the notice, demand or statement.

25. NO WAIVER OF CERTAIN RIGHTS.

Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

26. 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, 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.

27. FAIR EMPLOYMENT.

In connection with the performance of work under this agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The Unit Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

28. LOSS OF TITLE.

In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, so that such tract is not fully committed to this agreement and the operation thereof hereunder becomes impractical as a result thereof, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that as to Federal land and State land or leases, no payments of funds due the United States or the State of New Mexico should be withheld, but such funds of the United States shall be deposited as directed by the Supervisor, and such funds of the State 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.

29. NON-JOINDER AND SUBSEQUENT JOINDER.

If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director, the Commissioner and the Unit Operator prior to the approval of this agreement by the Director. Any such tract not so withdrawn shall be considered as unitized, and any necessary adjustments of royalty occasioned by failure of the royalty and record owner to join will be for the account of the corresponding working interest owner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as effectively committed to this unit agreement. After operations are commenced hereunder, the right of a subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any owner of a non-working interest at any time must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Commissioner and the Supervisor of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty days by the Director or the Commissioner.

30. 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, this unit agreement is executed by the undersigned parties hereto as of the dates set opposite their respective signatures.

UNIT OPERATOR AND WORKING INTEREST OWNER

WILSHIRE OIL COMPANY OF TEXAS

Date: _____

By _____
Vice President

ATTEST:

Assistant Secretary
Leggett Building
Midland, Texas

OTHER WORKING INTEREST OWNERS

CARPER DRILLING COMPANY

Date: _____

By _____
President

ATTEST:

Secretary
200 Carper Building
Artesia, New Mexico

SINCLAIR OIL & GAS COMPANY

Date: _____

By _____
Vice President

ATTEST:

Assistant Secretary
Sinclair Building
Tulsa, Oklahoma

PHILLIPS PETROLEUM COMPANY

Date: _____

By _____
Vice President

ATTEST:

Assistant Secretary
Bartlesville, Oklahoma

Date: _____

By _____
Vice President

ATTEST:

Assistant Secretary

Date: _____

Address: _____

Paul O. Sergeant

Witness: _____

OTHER PARTIES

Date: _____

Address: _____

Witness: _____

Bernice R. Piatt

Date: _____

Address: _____

Paul Childress

Witness: _____

Date: _____

Address: _____

Witness: _____

Date: _____

Address: _____

Witness: _____

FOSTER MORRELL
PETROLEUM CONSULTANT
NICKSON HOTEL BUILDING
ROSWELL, NEW MEXICO

October 8, 1957

Mr. A. L. Porter
Secretary and Director
New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Re: Seven Rivers Hills Unit Agreement
Eddy County, New Mexico

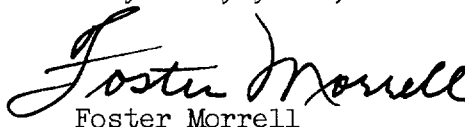
Dear Mr. Porter:

On September 27, 1957, the Acting Director of the Geological Survey approved the Seven Rivers Hills Unit Agreement embracing 10,995.88 acres of land in T. 20 S., R. 26 E., and T. 21 S., R. 25 E., N.M.P.M., Eddy County, New Mexico. This agreement is designated by the Department of Interior as Contract No. 14-08-001-3900 and is effective as of October 1, 1957.

An executed counterpart of the approved Unit Agreement and Unit Operating Agreement for the Seven Rivers Hills Unit Area is filed herewith for your records pursuant to Section 5 of the Commission's Order No. R-973, dated April 5, 1957, in Case No. 1224.

Wilshire Oil Company of Texas, Leggett Building, Midland, Texas, is designated under these agreements as the Unit Operator.

Very truly yours,


Foster Morrell

FM/as
Enclosures

cc: Mr. Clyde N. Stone
Wilshire Oil Company of Texas
Leggett Building
Midland, Texas

UNIT AGREEMENT
SEVEN RIVERS HILLS UNIT AREA
EDDY COUNTY, NEW MEXICO

TABLE OF CONTENTS

Preliminary Recitals	1
Section 1 - Enabling Act and Regulations	2
Section 2 - Unit Area	2
Section 3 - Unitized Land and Unitized Substances	5
Section 4 - Unit Operator	5
Section 5 - Resignation or Removal of Unit Operator	5
Section 6 - Successor Unit Operator	6
Section 7 - Accounting Provisions and Unit Operating Agreement.	7
Section 8 - Rights and Obligations of Unit Operator	7
Section 9 - Drilling To Discovery	8
Section 10 - Plan of Further Development and Operation	9
Section 11 - Participation After Discovery	10
Section 12 - Allocation of Production	12
Section 13 - Development or Operation of Non-Participating Land or Formations and Drilling of Wells Not Mutually Agreed Upon	12
Section 14 - Royalty Settlement	13
Section 15 - Rental Settlement	14
Section 16 - Conservation	15
Section 17 - Drainage	15
Section 18 - Leases and Contracts Conformed and Extended	15
Section 19 - Covenants Run With Land	18
Section 20 - Effective Date and Term	18
Section 21 - Rate of Prospecting, Development, and Production	19
Section 22 - Conflict of Supervision	19
Section 23 - Appearances	20
Section 24 - Notices	20
Section 25 - No Waiver of Certain Rights	20
Section 26 - Unavoidable Delay	20
Section 27 - Fair Employment	21
Section 28 - Loss of Title	21
Section 29 - Non-Joinder and Subsequent Joinder	22
Section 30 - Counterparts	22

EXHIBITS

- Exhibit "A" - Map
Exhibit "B" - Schedule of Ownership in Lands

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE SEVEN RIVERS HILLS UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO

NO. 14-08-001-3900

THIS AGREEMENT, entered into as of the 13th day of March, 1952, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an act of the Legislature (Chapter 88, Laws 1943) to consent to and approve the development or operation of lands of the State of New Mexico under this agreement; and

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

WHEREAS, the parties hereto hold sufficient interests in the Seven Rivers Hills 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:

1. ENABLING ACT AND REGULATIONS.

The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of New Mexico are hereby accepted and made a part of this agreement.

2. UNIT AREA.

The following-described land is hereby designated and recognized as constituting the unit area:

<u>New Mexico Principal Meridian</u> <u>Township 20 South, Range 26 East</u>		<u>Acres</u>
Section 19: Lots 3,4, $S\frac{1}{2}NE\frac{1}{4}$, $E\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}$		400.04
Sections 20, 21, 22: All		1,920.00
Section 27: $NW\frac{1}{4}$, $W\frac{1}{2}SW\frac{1}{4}$		240.00
Sections 28, 29: All		1,280.00
Section 30: Lots 1,2,3,4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$ (all)		639.84
Section 31: Lots 1,2,3,4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$ (all)		639.84
Sections 32, 33: All		1,280.00
<u>Township 21 South, Range 25 East</u>		
Section 3: Lots 2,3,4,5,12,13, $NW\frac{1}{4}SW\frac{1}{4}$		246.31
Section 4: Lots 1 through 16, $SW\frac{1}{4}$, $N\frac{1}{2}SE\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$		876.80
Section 5: Lots 1 through 16, $S\frac{1}{2}$ (all)		917.98
Section 6: Lots 1 through 18, $E\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}$ (all)		918.27
Section 7: Lots 1,2,3,4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$ (all)		638.88
Section 8: $N\frac{1}{2}$, $SW\frac{1}{4}$, $N\frac{1}{2}SE\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$		600.00
Section 9: $N\frac{1}{2}NW\frac{1}{4}$		80.00
Section 18: Lots 1,2,3,4, $E\frac{1}{2}NW\frac{1}{4}$, $W\frac{1}{2}NE\frac{1}{4}$		<u>317.92</u>
Total		10,995.88

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of 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. Exhibits "A" and

"B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner," and not less than six copies of the revised exhibits shall be filed with the Supervisor and copies thereof shall be filed with the Commissioner and the New Mexico Oil Conservation Commission, hereinafter referred to as the "Commission."

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, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner;

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director," or on demand of the Commissioner, after preliminary concurrence of the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Commission, the Commissioner, and the Supervisor, and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that thirty 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 Commission, the Commissioner, and the Supervisor evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction, and with appropriate joinders.

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

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys, however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within five years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 7 years after said first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "Unavoidable Delay" time shall be made by Unit Operator and subject to approval of the Commissioner and the Director. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Commissioner and the Director and promptly notify all parties in interest.

If conditions warrant extension of the 7-year period specified in this subsection 2(e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty interests of the United States), on a total-nonparticipating-acreage basis, respectively, with approval of the Commissioner and the Director, provided such extension application is submitted to the Commissioner and the

Director not later than 60 days prior to the expiration of said 7-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES.

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

4. UNIT OPERATOR.

Wilshire Oil Company of Texas, a Delaware corporation with offices at Midland, Texas, is hereby designated as Unit Operator and by signature hereto as Unit Operator 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 reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR.

Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Commission, the Commissioner, and the Director, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and by the Commission as to other lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area

established hereunder is in existence, provided, that such resignation shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by 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 and the Director.

At any time for any reason whatsoever there is no Unit Operator, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than thirty days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other 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.

6. SUCCESSOR UNIT OPERATOR.

Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or until a participating area shall have been established, 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 seventy-five percent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners 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 and the Director. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner and the Director at their election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.

Costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements, entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as 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 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 unit agreement, and in case of any inconsistency or conflict between the unit agreement and the unit operating agreement, this unit agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor prior to approval of this unit agreement by the Director.

8. 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. 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.

9. DRILLING TO DISCOVERY.

Within six months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor if on Federal land or the Commission if on State or patented land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the upper portion of the San Andres formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if on Federal land or the Commissioner if on State land or the Commission if on patented land that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 3000 feet. Within ninety days following completion of the aforesaid initial test well upon the unit area, Unit Operator shall commence the drilling of an additional well and shall thereafter continue drilling operations thereon to said formation or depth at a location selected by Unit Operator and approved by the Supervisor if on Federal land or the Commission if on State or patented land, so spaced within the unit area as to determine so far as may be practicable the productive acreage in the San Andres and shallower formations underlying said unit area. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling

during the period pending such resignation becoming effective in order to comply with the requirements of this section. After completion of the two test wells mentioned above, the Director may modify the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted.

Upon failure to comply with the drilling provisions of this section, the Commissioner and the Director may, after reasonable notice to the Unit Operator, and each working interest owner, lessee, and lessor at their last known addresses, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION.

Within six months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Commission, the Commissioner, and the Supervisor an acceptable plan of development and operation for the unitized land which, when approved by the Commission, the Commissioner, and the Supervisor, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. From time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Commission, the Commissioner, and the Supervisor a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Commission, the Commissioner, and the Supervisor may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Commission, the Commissioner, and the Supervisor. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of

development. The Commissioner and the Supervisor are authorized to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Commission, the Commissioner, and the Supervisor, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY.

Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Commissioner or the Supervisor, the Unit Operator shall submit for approval by the Commission, the Commissioner, and the Director a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Commission, the Commissioner, and the Director to constitute a participating area, effective as of the date of completion of the well, or the effective date of this unit agreement, whichever is later. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Commission, the Commissioner and the Director. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first

of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Commission, the Commissioner, and the Director as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the United States and the State of New Mexico, which shall be determined by the Supervisor and the Commissioner and the amount thereof deposited as directed by the Supervisor, and the Commissioner, respectively, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor as to wells on Federal land, the Commissioner as to wells on State land, and the Commission as to patented land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well, for the purposes of settlement among all parties other than working interest owners, shall be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION.

All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Commission, the Commissioner, and the Supervisor, or unavoidably lost, shall be deemed to be produced equally on the acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, and overriding royalty, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS AND DRILLING OF WELLS NOT MUTUALLY AGREED UPON.

Any party or parties hereto owning or controlling the working interests or a majority of the working interests in any unitized land having thereon a regular well location may, with the approval of the Supervisor as to Federal land, or the Commission as to State land and privately-owned land, and subject to the provisions of the unit operating agreement, at such party's sole risk, cost and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has

been established if such location is not within said participating area, or drill any well not mutually agreed to by all interested parties, unless within ninety days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement, and the party or parties paying the cost of drilling such well shall be reimbursed as provided in the unit operating agreement for the cost of drilling such well, and the well shall thereafter be operated by Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT.

The United States and the State of New Mexico and all royalty owners who, under existing contracts, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, 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 royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area of the lands being operated hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commission, the Commissioner, and the Supervisor, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and 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 the plan of operations or as may otherwise be consented to by the Commission, the Commissioner, and the Supervisor, as conforming to good petroleum engineering practice, and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

Royalty due on account of State and privately-owned lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

15. RENTAL SETTLEMENT.

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

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases.

With respect to any lease on non-Federal land, if and when committed to this agreement, containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the terms thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included within a participating area.

16. 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 or Federal law or regulation.

17. 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, including wells on adjacent unit areas, or with the consent of the Director or the Commissioner, respectively, pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the Supervisor for Federal lands or as approved by the Commissioner for State lands.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED.

The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas of lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary as to Federal leases and the Commissioner as to State leases shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect

thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary and the Commissioner, or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land.

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands other than those of the United States, committed to this agreement, which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement; provided, however, each such lease, sublease or contract, where not already extended by production, shall only be extended in the event unitized substances are capable of being produced from some part of the lands embraced in such lease committed to this agreement, or some part of said lands are committed to a participating area prior to the expiration of the primary term of such lease, sublease or contract. Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or applicable law, shall continue in full force and effect thereafter.

(e) Any Federal lease for a fixed term of twenty years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such lease remains subject hereto, provided, that production is had in paying quantities under this agreement prior to the expiration date of the term of such lease.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(b) of the Act of February 25, 1920, as amended by the Act of July 29, 1954, (68 Stat. 583,585): "Any (Federal) lease hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(h) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Provided, however, 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.

19. COVENANTS RUN WITH LAND.

The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon the 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.

20. EFFECTIVE DATE AND TERM.

This agreement shall become effective upon approval by the Commissioner and the Director, or their duly authorized representatives, as of the first day of the month following approval by the Director and shall remain in effect until July 1, 1960, and so long thereafter as unitized substances can be produced in paying quantities, i.e., in this particular instance in quantities sufficient to pay for the costs of producing same from wells on unitized land within any participating area established hereunder 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, or it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than seventy-five percent, on an acreage basis, of the owners of working interests signatory

hereto, with the approval of the Commissioner and the Director; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION.

All unit production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately-owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

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

22. 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 provision thereof to the extent that the said Unit Operator, working interest owners or any of them are hindered, delayed or prevented from complying therewith by reason of 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 thing concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions

of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

23. APPEARANCES.

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

24. NOTICES.

All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered 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 may have furnished in writing to party sending the notice, demand or statement.

25. NO WAIVER OF CERTAIN RIGHTS.

Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

26. 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, 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.

27. FAIR EMPLOYMENT.

In connection with the performance of work under this agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The Unit Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

28. LOSS OF TITLE.

In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, so that such tract is not fully committed to this agreement and the operation thereof hereunder becomes impractical as a result thereof, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that as to Federal land and State land or leases, no payments of funds due the United States or the State of New Mexico should be withheld, but such funds of the United States shall be deposited as directed by the Supervisor, and such funds of the State 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.

29. NON-JOINDER AND SUBSEQUENT JOINDER.

If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director, the Commissioner and the Unit Operator prior to the approval of this agreement by the Director. Any such tract not so withdrawn shall be considered as unitized, and any necessary adjustments of royalty occasioned by failure of the royalty and record owner to join will be for the account of the corresponding working interest owner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as effectively committed to this unit agreement. After operations are commenced hereunder, the right of a subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any owner of a non-working interest at any time must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Commissioner and the Supervisor of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty days by the Director or the Commissioner.

30. 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, this unit agreement is executed by the undersigned parties hereto as of the dates set opposite their respective signatures.

UNIT OPERATOR AND WORKING INTEREST OWNER

WILSHIRE OIL COMPANY OF TEXAS

Date: 3-13-57

By


Vice President

ATTEST:


Assistant Secretary

Leggett Building
Midland, Texas

OTHER WORKING INTEREST OWNERS

CARPER DRILLING COMPANY

Date: _____

By _____
President

ATTEST:

Secretary

200 Carper Building
Artesia, New Mexico

SINCLAIR OIL & GAS COMPANY

Date: _____

By _____
Vice President

ATTEST:

Assistant Secretary

Sinclair Building
Tulsa, Oklahoma

PHILLIPS PETROLEUM COMPANY

Date: _____

By _____

ATTEST:

Assistant Secretary
Bartlesville, Oklahoma

Date: July 2, 1957
Address: 500 North Big Springs
Midland, Texas
ATTEST: H. E. Herdis
Secretary

RUTTER ROYALTY COMPANY
~~Paul G. Sergeant~~

By

Secretary

OTHER PARTIES

Date: March 15, 1957
Address: 1/2 Trust Department,
First National Bank in Dallas,
Dallas, Texas.

Paul Childress
Paul Childress

Date: _____
Address: _____

Ralph A. Shugart

Date: April 9, 1957
Address: 127 S. Richardson
Roswell, New Mexico

Rena Shugart

Eugene E. Nearburg

Anna A. Nearburg
Anna A. Nearburg

Date: April 9, 1957
Address: 127 S. Richardson
Roswell, New Mexico

Tom L. Ingram

Joan L. Ingram

Date: 4/17/57
Address: Box 368
Artesia N.M.

Fred Brainard

Julia Brainard

Date: March 15, 1957
Address: 1/2 Trust Department
P.O. Box 116
First National Bank in Dallas,
Joplin, Missouri
Dallas, Texas

CHILDRESS ROYALTY COMPANY

ATTEST:

M. H. Childress
Assistant Secretary

By Paul Childress
Vice President

STATE OF Texas)
COUNTY OF Midland) ss.

The foregoing instrument was acknowledged before me this 13th day of March, 1957, by L. H. Lase, Vice President of Wilshire Oil Co. of Texas Delaware Corporation, in behalf of said corporation.

My Commission Expires:
LORENE BOSLER, Notary Public
My Commission Expires June 1, 1957.

Lorene Bosler
Notary Public in and for Midland
County, State of Texas

STATE OF Texas)
COUNTY OF Midland) ss.

The foregoing instrument was acknowledged before me this 2 day of July, 1957, by A. W. Ruster Jr., Vice President of Ruster Royalty Company, a Texas Corporation, in behalf of said corporation.

My Commission Expires:
June 1, 1959

Helen Jones
Notary Public in and for Midland
County, State of Texas

STATE OF)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 195__, by _____, _____ President of _____, a _____ Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 195__, by _____, _____ President of _____, a _____ Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF MISSOURI)
)
COUNTY OF JASPER) ss.

The foregoing instrument was acknowledged before me this 15th day of March, 1957, by Paul Childress, President of CHILDRESS ROYALTY COMPANY, a Delaware Corporation, in behalf of said corporation.

My Commission Expires:
March 7, 1961

Wilma M. Howard
Notary Public in and for JASPER
County, State of MISSOURI

STATE OF)
)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this day of , 195 , by , President of , a Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for
County, State of

STATE OF)
)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this day of , 195 , by , President of , a Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for
County, State of

STATE OF)
)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this day of , 195 , by , President of , a Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for
County, State of

STATE OF MISSOURI)
COUNTY OF JASPER) ss.

The foregoing instrument was acknowledged before me this 15th day of March, 1957, by PAUL CHILDRESS.

My Commission Expires:
March 7, 1961

William M. Howard
Notary Public in and for JASPER
County, State of MISSOURI

STATE OF New Mexico)
COUNTY OF Chaves) ss.

The foregoing instrument was acknowledged before me this 9th day of April, 1957, by Eugene E. Reaching and Emma H. Reaching, his wife.

My Commission Expires:
3-4-61

Joan Hays
Notary Public in and for Chaves
County, State of New Mexico

STATE OF New Mexico)
COUNTY OF Chaves) ss.

The foregoing instrument was acknowledged before me this 9th day of April, 1957, by Frank L. Ingram and Joan L. Ingram, his wife.

My Commission Expires:
3-4-61

Joan Hays
Notary Public in and for Chaves
County, State of New Mexico

STATE OF New Mexico)
COUNTY OF Eddy) ss.

The foregoing instrument was acknowledged before me this 17 day of April, 1957, by Red Prumial and Julia Prumial, his wife.

My Commission Expires:
4-22-59

June B. Barrett
Notary Public in and for Eddy
County, State of New Mexico

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Land Owner Percentage of Royalty or Application	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest Owner Under Option Agreement, Operating Agreement of Assignment and Percentage of Interest

FEDERAL LAND

T. 21 S., R. 25 E.

1	Sec. 5: SE $\frac{1}{4}$, NE $\frac{1}{2}$ SW $\frac{1}{4}$	240.00	LC 070396 7-1-49 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	*Rutter Royalty Company	None	Rutter Royalty Company All
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T. 20 S., R. 26 E.

2	Sec. 33: NE $\frac{1}{4}$ T. 21 S., R. 25 E. Sec. 3: Lots 12, 13	240.00	LC 070498 4-1-49 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	Sinclair Oil & Gas Company	None	Sinclair Oil & Gas Company All
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T. 20 S., R. 26 E.

3	Sec. 20: SE $\frac{1}{4}$ Sec. 31: NE $\frac{1}{4}$	220.00	LC 071846 2-1-50 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	Wilshire Oil Company of Texas	(1) Production Payment 5.00%	Wilshire Oil Company of Texas All
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4 Sec. 22: NE $\frac{1}{4}$

4	Sec. 22: NE $\frac{1}{4}$	160.00	LC 071847 2-1-50 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	Wilshire Oil Company of Texas	(1) Production Payment 5.00%	Wilshire Oil Company of Texas All
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* Assignee under assignment filed for approval.

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Land Owner Percentage of Royalty or Assignment	Record of Lease or Assignment	Overriding Royalty Owner and Percentage	Working Interest Owner Under Option Agreement, Operating Agreement or Assignment and Percentage of Interest
FEDERAL LAND (Continued)							
T. 20 S., R. 26 E.							
5	Sec. 28: SW $\frac{1}{4}$	160.00	LC 071848 2-1-50 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	Wilshire Oil Company of Texas	(1) Production Payment 5.00%	Wilshire Oil Company of Texas All
T. 21 S., R. 25 E.							
6	Sec. 8: NE $\frac{1}{4}$	160.00	LC 071849 2-1-50 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	Wilshire Oil Company of Texas	(1) Production Payment 5.00%	Wilshire Oil Company of Texas All
7	Sec. 6: Lots 9, 10, 15, 16	160.00	LC 071997 2-1-50 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	Wilshire Oil Company of Texas	(1) Production Payment 5.00%	Wilshire Oil Company of Texas All
8	Sec. 5: Lots 1 through 16, incl., S $\frac{1}{2}$ SW $\frac{1}{4}$	1436.25	NM 03203 2-1-50 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	Wilshire Oil Company of Texas	(1) Production Payment 5.00%	Wilshire Oil Company of Texas All
	Sec. 6: Lots 1, 2, 3, 4, 5, 6, 7, 8, 11, 12, 13, 14, 15, 16, 17, 18, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$						

No.	Description	No. of Acres	Ser. and Lease Date	Land Owner Percentage of Royalty or Application	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest Owner Under Option Agreement, Operating Agreement or Assignment and Percentage of Interest
Tract No.							

FEDERAL LAND (Continued)

T. 21 S., R. 25 E.

	2095.40	NM 03207	U.S.A.	Wilshire Oil Company	(1) Production Payment 5.00%	Wilshire Oil Company	All
9 Sec. 3:	N $\frac{1}{2}$ S $\frac{1}{2}$ W $\frac{1}{2}$	2-1-50	12 $\frac{1}{2}$ % All	of Texas			
Sec. 4:	Lots 3, 4, 5, 6, 11, 12, 13, 14, SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$	5 years					
Sec. 7:	Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (all)	Ext. add'l					
Sec. 8:	W $\frac{1}{2}$, W $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$	5 yrs.					
Sec. 9:	N $\frac{1}{2}$ NW $\frac{1}{4}$						
Sec. 18:	Lots 1, 2, 3, 4, E $\frac{1}{2}$ NW $\frac{1}{4}$, W $\frac{1}{2}$ NE $\frac{1}{4}$						

T. 20 S., R. 26 E.

10	Sec. 21: N $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$	1664.51	NM 03215 2-1-50 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	Wilshire Oil Company of Texas	(1) Production Payment 5.00%	Wilshire Oil Company of Texas	All
	Sec. 27: E $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$							
	Sec. 28: NW $\frac{1}{4}$, SE $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ NE $\frac{1}{4}$							
	Sec. 33: W $\frac{1}{2}$, SE $\frac{1}{4}$							
	<u>T. 21 S., R. 25 E.</u>							
	Sec. 3: Lots 2,3,4,5							
	Sec. 4: Lots 1,2,7,8,9, 10,15,16							

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Land Owner Percentage of Royalty or Application	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest Owner Under Option Agreement, Operating Agreement or Assignment and Percentage of Interest
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FEDERAL LANDS (Continued)

T. 20 S., R. 26 E.

11	Sec. 19: S $\frac{1}{2}$ NE $\frac{1}{4}$ Sec. 22: W $\frac{1}{2}$, SE $\frac{1}{4}$ Sec. 27: NW $\frac{1}{4}$ NW $\frac{1}{4}$ Sec. 29: NW $\frac{1}{4}$ Sec. 30: E $\frac{1}{2}$	1080.00	NM 03217 2-1-50 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	Wilshire Oil Company of Texas	(1) Production Payment 5.00%	Wilshire Oil Company of Texas All
12	Sec. 19: Lots 3, 4; E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ Sec. 20: W $\frac{1}{2}$, NE $\frac{1}{4}$ Sec. 21: NE $\frac{1}{4}$ Sec. 29: S $\frac{1}{2}$, NE $\frac{1}{4}$ Sec. 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{4}$ Sec. 31: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, SE $\frac{1}{4}$	2239.72	NM 03365 2-1-50 5 years Ext. add'l 5 yrs.	U.S.A. 12 $\frac{1}{2}$ % All	Wilshire Oil Company of Texas	(1) Production Payment 5.00%	Wilshire Oil Company of Texas All
13	Sec. 21: All that portion of NW $\frac{1}{4}$ and E $\frac{1}{2}$ SW $\frac{1}{4}$ lying left of east bank of Pecos River; SW $\frac{1}{4}$ SE $\frac{1}{4}$ Sec. 27: SW $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 28: All that portion of NW $\frac{1}{4}$ NE $\frac{1}{4}$ lying left of east bank of Pecos River	378.90	BLM-A 026872 6-1-54 5 years	U.S.A. 12 $\frac{1}{2}$ % All	Carper Drilling Company	None	Carper Drilling Company All

Tract No.	Description	No. of Acres	Serial No. and Lease Date		Land Owner Percentage of Royalty or Application	Record Owner of Lease Owner and Percentage	Overriding Royalty Percentage of Interest	Working Interest when Under Option Agreement, Operating Agreement or Assignment and Percentage of Interest

FEDERAL LAND (Continued)

T. 20 S., R. 26 E.

14	Sec. 21: All that portion of NW $\frac{1}{4}$ and E $\frac{1}{2}$ SW $\frac{1}{4}$ lying right of east bank of Pecos River	21.10	NM 032318 Application filed 3-8-57	U.S.A.	Foster Morrell			
	Sec. 28: All that portion of NW $\frac{1}{4}$ NE $\frac{1}{4}$ lying right of east bank of Pecos River							

TOTAL FEDERAL LANDS - 10,355.88 acres

ILLEGIBLE

EXHIBIT "B" - SEVEN RIVERS HILLS UNIT - EDDY COUNTY, NEW MEXICO

Page 6

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Land Owner		Record Owner of Lease or Application	Overriding Royalty Owner and Percentage	Working Interest Owner Under Option Agreement, Operating Agreement or Assignment and Percentage of Interest
				Percentage of Royalty	Percentage			

STATE LAND

T. 20 S., R. 26 E.

15	Sec. 32: NW $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$	200.00	E-2864-5 8-10-49 10 years	State of New Mexico 12 $\frac{1}{2}$ % All.	Wilshire Oil Company of Texas	Nearburg & Ingram, a Partnership Ralph A. Shugart	1.00% 3.00% 4.00%	Wilshire Oil Company of Texas All
16	Sec. 32: NW $\frac{1}{4}$ NE $\frac{1}{4}$, W $\frac{1}{2}$ NE $\frac{1}{4}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$	440.00	OE-108-1 8-21-56 10 years	State of New Mexico 12 $\frac{1}{2}$ % All	Phillips Petroleum Company	None		Phillips Petroleum Company All

TOTAL STATE LANDS - 640.00 Acres

RECAPITULATION

Land	Acreage	Percentage
Federal	10,355.88	94.18%
State	640.00	5.82%
Totals	10,995.88	100.00%

NOTE: (1) Production payment referred to under Tracts 3,4,5,6,7,8,9,10,11 and 12 is \$750 for each of 10,435.88 acres described in the instruments creating said payment, payable out of 5% of all oil and gas produced, saved and marketed from any portion of the lands subject to said production payment, whether or not included within the unit area herein described. This oil payment is owned as follows:

Paul Childress and Childress Royalty Company	60.00%
Nearburg & Ingram, a Partnership	20.00%
Fred Brainard	20.00%

August 9, 1957

RATIFICATION AND JOINDER OF UNIT AGREEMENT
SEVEN RIVERS HILLS UNIT AREA
EDDY COUNTY, NEW MEXICO

In consideration of the execution of the Unit Agreement for the Development and Operation of the Seven Rivers Hills Unit Area located within the County of Eddy, State of New Mexico, in form approved on behalf of the Secretary of the Interior, the undersigned owners of lands or leases, or interests therein or royalties presently held or which may arise under existing option agreements, or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his or her particular ownership or interest, as may appear, consent to the inclusion of said lands within the Unit Area therein defined, ratify, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior or his duly authorized representative as applicable to said several lands and interests, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement, agree that the drilling, development and producing requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and gas duly made at contract rates applied to the production allocated under said Unit Agreement to the particular lands to which such rights or interests do or shall apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

This Ratification and Joinder of Unit Agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands affected hereby, and when so executed shall be binding upon the undersigned, his or her assigns or successors in interest.

ADDRESS

SIGNATURE

ATTEST:

CARPER DRILLING COMPANY, INC.

Blaine A. Caskey
Assistant Secretary

By *Stanley Carper*
Stanley Carper, Executive Vice Pres.

Date: September 23, 1957

Carper Building, Artesia, New Mexico

STATE OF _____)
COUNTY OF _____) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 1957, by _____.

My Commission Expires: _____

Notary Public in and for _____
County, State of _____

STATE OF NEW MEXICO)
COUNTY OF EDDY) ss.

The foregoing instrument was acknowledged before me this 23rd day of September, 1957, by Stanley Carper, Executive Vice President of CARPER DRILLING COMPANY, INC., a New Mexico Corporation, in behalf of said corporation.

My Commission Expires: _____

October 15, 1959

Chris Chapin
Notary Public in and for Eddy
County, State of New Mexico

RATIFICATION AND JOINDER OF UNIT AGREEMENT

SEVEN RIVERS HILLS UNIT AREA

EDDY COUNTY, NEW MEXICO

In consideration of the execution of the Unit Agreement for the Development and Operation of the Seven Rivers Hills Unit Area located within the County of Eddy, State of New Mexico, in form approved on behalf of the Secretary of the Interior, the undersigned owners of lands or leases, or interests therein or royalties presently held or which may arise under existing option agreements, or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his or her particular ownership or interest, as may appear, consent to the inclusion of said lands within the Unit Area therein defined, ratify, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior or his duly authorized representative as applicable to said several lands and interests, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement, agree that the drilling, development and producing requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and gas duly made at contract rates applied to the production allocated under said Unit Agreement to the particular lands to which such rights or interests do or shall apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

This Ratification and Joinder of Unit Agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands affected hereby, and when so executed shall be binding upon the undersigned, his or her assigns or successors in interest.

ADDRESS

SIGNATURE

P. O. Box 933

Foster Morrell

Roswell, New Mexico

Date: September 24, 1957

STATE OF NEW MEXICO)
COUNTY OF CHAVES) ss.

The foregoing instrument was acknowledged before me this 24th day of September, 1957, by Foster Morrell and Edna E. Morrell, his wife.

My Commission Expires:

March 16, 1957

Ernest Lee Hodges
Notary Public in and for Chaves
County, State of New Mexico

STATE OF)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ President of _____, a _____ Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for _____
County, State of _____

**BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO**

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

CASE NO. 1224
Order No. R-973

**THE APPLICATION OF WILSHIRE OIL
COMPANY OF TEXAS FOR THE APPROVAL
OF ITS SEVEN RIVERS HILLS UNIT
AGREEMENT EMBRACING 10,996 ACRES,
MORE OR LESS, LOCATED IN TOWNSHIP
20 SOUTH, RANGE 26 EAST AND TOWNSHIP
21 SOUTH, RANGE 25 EAST, WMPM, KIDDY
COUNTY, NEW MEXICO.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 10 o'clock a.m. on March 20, 1957 at Santa Fe, New Mexico, before Daniel S. Nutter, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 5th day of April, 1957, the Commission, a quorum being present, having considered the application, the evidence adduced and the recommendations of the Examiner, Daniel S. Nutter, and being fully advised in the premises,

FINDS:

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

(2) That the proposed unit plan will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

1. That this order shall be known as the

SEVEN RIVERS HILLS UNIT AGREEMENT ORDER

2. (a) That the project herein referred to shall be known as the Seven Rivers Hills Unit Agreement and shall hereinafter be referred to as the "Project."

(b) That the plan by which the project shall be operated shall be embraced in the form of a unit agreement for the development and operation of the Seven Rivers Hills Unit Area, referred to in the Petitioner's petition and filed with said petition, and such plan shall be known as the Seven Rivers Hills Unit Agreement Plan.

Case No. 1224
Order No. R-873

3. That the Seven Rivers Hills Unit Agreement Plan shall be, and hereby is, approved in principle as a proper conservation measure, provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing in any manner any right, duties or obligations which are now, or may hereafter, be vested in the New Mexico Oil Conservation Commission by law relative to the supervision and control of operations for exploration and development of any lands committed to said Seven Rivers Hills Unit Agreement, or relative to the production of oil and gas therefrom.

4. (a) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

TOWNSHIP 20 SOUTH, RANGE 26 EAST, NMPM

Section 19: Lots 3, 4, E/2 NE/4, E/2 SW/4, SE/4
Sections 20, 21, 22: All
Section 27: NW/4, W/2 SW/4
Sections 28, 29: All
Section 30: Lots 1, 2, 3, 4, E/2 W/2, E/2 (All)
Section 31: Lots 1, 2, 3, 4, E/2 W/2, E/2 (All)
Sections 32, 33: All

TOWNSHIP 21 SOUTH, RANGE 25 EAST, NMPM

Section 3: Lots 2, 3, 4, 5, 12, 13, NW/4 SW/4
Section 4: Lots 1 through 16, SW/4, N/2 SE/4, SW/4 SE/4
Section 5: Lots 1 through 16, S/2 (All)
Section 6: Lots 1 through 16, E/2 SW/4, SE/4 (All)
Section 7: Lots 1, 2, 3, 4, E/2 W/2, E/2 (All)
Section 8: N/2, SW/4, N/2 SE/4, SW/4 SE/4
Section 9: N/2 NW/4
Section 18: Lots 1, 2, 3, 4, E/2 NW/4, W/2 NE/4

containing 10,996 acres more or less.

(b) The unit area may be enlarged or contracted as provided in said Plan.

5. That the unit operator shall file with the Commission an executed original or executed counterpart of the Seven Rivers Hills Unit Agreement within 30 days after the effective date thereof.

6. That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the effective date thereof may thereafter become a party thereto by subscribing to such agreement or counterpart thereof, or by ratifying the same. The unit operator shall file with the Commission within 30 days an original of any such counterpart or ratification.

-3-

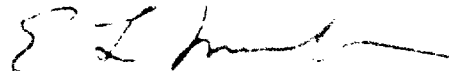
Case No. 1224

Order No. R-973

7. That this order shall become effective upon the approval of said unit agreement by the Director of the United States Geological Survey and by the Commissioner of Public Lands of the State of New Mexico and shall terminate ipso facto upon the termination of said unit agreement. The last unit operator shall immediately notify the Commission in writing of such termination.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



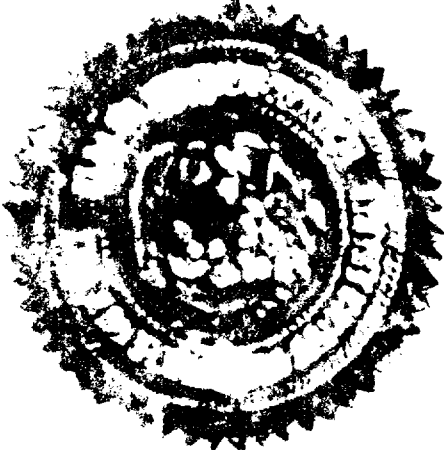
EDWIN L. MECHEN, Chairman



MURRAY E. MORGAN, Member



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



CERTIFICATE OF APPROVAL

BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

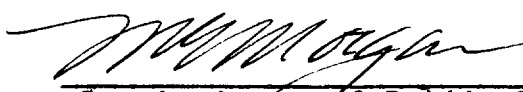
SEVEN RIVERS HILLS UNIT

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated March 13, 1957, which has been executed or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

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

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

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 29th day of July 1957.



Commissioner of Public Lands
of the State of New Mexico

CERTIFICATION--DETERMINATION

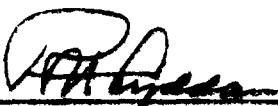
Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Director of the Geological Survey pursuant to Departmental Order No. 2365 of October 8, 1947, 43 C. F. R. sec. 4.611,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

A. Approve the attached agreement for the development and operation of the Seven Rivers Hills Unit Area, State of New Mexico.

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

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

Dated SEP 27 1957.



Acting Director, United States Geological Survey
R. H. Lyddan

14-08-001-3900

UNIT OPERATING AGREEMENT
SEVEN RIVERS HILLS UNIT AREA
EDDY COUNTY, NEW MEXICO

TABLE OF CONTENTS

Preliminary Recitals	1
Section 1 - Unit Agreement Confirmed	2
Section 2 - Titles	2
Section 3 - Apportionment of Costs and Benefits	3
Section 4 - Royalty and Other Payments Out of Production	6
Section 5 - Rentals	6
Section 6 - Determinations by Majority Vote	6
Section 7 - Drilling of Additional Wells	8
Section 8 - Option to Take Over Wells	10
Section 9 - Charges for Drilling Operations	11
Section 10 - Access to Operations and Information	11
Section 11 - Income Tax Election, Subchapter K of Chapter 1 Sub-Title A Internal Revenue Code	11
Section 12 - Disposition of Production	12
Section 13 - Pipe and Other Tubular Goods	13
Section 14 - Advances	13
Section 15 - Operator's Lien	14
Section 16 - Insurance	14
Section 17 - Surrender	15
Section 18 - Taxes	15
Section 19 - Employees	16
Section 20 - Relation of Parties	16
Section 21 - Force Majeure	16
Section 22 - Notices	16
Section 23 - Fair Employment Practices	17
Section 24 - Unleased Interests	17
Section 25 - Outstanding Agreements Confirmed	18
Section 26 - Effective Date and Term	18
Section 27 - Execution by Counterparts	18

Exhibit 1 - Accounting Procedure

UNIT OPERATING AGREEMENT
SEVEN RIVERS HILLS UNIT AREA

THIS AGREEMENT, made and entered into this 13th day of March, 1957, by and among Wilshire Oil Company of Texas, a Delaware Corporation, hereinafter sometimes referred to as "Unit Operator," and such other parties owning working interests subject to the Unit Agreement for the Development and Operation of the Seven Rivers Hills Unit Area as may execute this agreement, which working interest owners are hereinafter sometimes referred to as "Nonoperators," both Operator and Nonoperators being sometimes referred to as "Working Interest Owners."

W I T N E S S E T H :

WHEREAS, the parties hereto are also parties to that certain Unit Agreement for the Development and Operation of the Seven Rivers Hills Unit Area, County of Eddy, State of New Mexico, hereinafter called the "Unit Agreement" embracing the following described land:

New Mexico Principal Meridian
Township 20 South, Range 26 East

	<u>Acres</u>
Section 19: Lots 3,4, $S\frac{1}{2}NE\frac{1}{4}$, $E\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}$	400.04
Sections 20, 21, 22: All	1,920.00
Section 27: $NW\frac{1}{4}$, $W\frac{1}{2}SW\frac{1}{4}$	240.00
Sections 28, 29: All	1,280.00
Section 30: Lots 1,2,3,4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$ (all)	639.84
Section 31: Lots 1,2,3,4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$ (all)	639.84
Sections 32, 33: All	1,280.00

Township 21 South, Range 25 East

Section 3: Lots 2,3,4,5,12,13, $NW\frac{1}{4}SW\frac{1}{4}$	246.31
Section 4: Lots 1 through 16, $SW\frac{1}{4}$, $N\frac{1}{2}SE\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$	876.80
Section 5: Lots 1 through 16, $S\frac{1}{2}$ (all)	917.98
Section 6: Lots 1 through 18, $E\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}$ (all)	918.27
Section 7: Lots 1,2,3,4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$ (all)	638.88
Section 8: $N\frac{1}{2}$, $SW\frac{1}{4}$, $N\frac{1}{2}SE\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$	600.00
Section 9: $N\frac{1}{2}NW\frac{1}{4}$	80.00
Section 18: Lots 1,2,3,4, $E\frac{1}{2}NW\frac{1}{4}$, $W\frac{1}{2}NE\frac{1}{4}$	<u>317.92</u>

Total 10,995.88

WHEREAS, the parties hereto, in accord with the provisions of Section 7 and 12 of the Unit Agreement desire to provide for the apportionment of costs and benefits among the Working Interest Owners and to establish between themselves certain matters relating to the development and operation of the said Unit Area.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, it is hereby agreed by and between the parties hereto as follows:

1. UNIT AGREEMENT CONFIRMED.

The Unit Agreement, including the exhibits thereto, is hereby confirmed and adopted and made a part of this agreement. Terms employed in this agreement shall bear the same meaning as given them in the Unit Agreement. The unit area shall be developed and operated for the production and handling of unitized substances in accord with the Unit Agreement and this Unit Operating Agreement. In the event of any inconsistency or conflict between provisions of this agreement and the Unit Agreement, the Unit Agreement shall prevail.

2. TITLES.

a. Each of the parties hereto represents to all other parties hereto that its ownership of oil, gas and mineral interests in the unit area is correctly stated in the schedule attached as Exhibit "B" to the Unit Agreement. In the event such representation of any party is erroneous or the title of any party hereto fails, in whole or in part, the interests of the parties hereunder shall be accordingly adjusted to the end that no party shall be credited with interests that it does not own. Parties contributing acreage to the unit and receiving credit hereunder therefor shall, subject to the provisions of Section 2c below, bear the entire loss occasioned by any failure of title or defect in their title or encumbrance thereon and shall save the other parties hereto harmless from any obligation or liability on account thereof. All title curative expense and all costs and expenses incurred in defending or establishing title to any interest in the unitized substances shall be borne by the party or parties hereto who claim such interest.

b. Within fifteen (15) days following its execution of this agreement, each Working Interest Owner shall furnish to the Unit Operator copies of its leases, operating agreement or other documents upon which it relies as establishing its ownership of working interests, together with copies of its rental receipts or other evidence satisfactory to establish that such leases, agreements and other documents remain in full force and effect. It shall also furnish any title data in its possession relating to its working interest ownership, including the title opinion of its attorney and any curative instruments acquired in relation thereto. Where outstanding title requirements have not been satisfied, the Working Interest Owner whose title is affected shall proceed to satisfy such

title requirements with due diligence and furnish proof of the satisfaction thereof to the Unit Operator.

c. As a prerequisite to the drilling of any well hereunder, Unit Operator shall obtain a title opinion by a competent attorney or attorneys selected by it, based upon examination of complete abstract of title certified to date or the official county or state or federal records as well as examination of the material submitted pursuant to Section 2b above, approving title for drilling purposes to the spacing unit upon which the well is to be located; provided, however, that Unit Operator shall not be required to re-examine title to any spacing unit for the drilling of any second or subsequent well thereon. The party or parties owning working interests in such spacing unit shall furnish such abstracts promptly as required and shall satisfy title requirements made by the examining attorney, at such party's or parties' sole expense, without delay in order that the drilling obligation stated in the Unit Agreement shall be timely performed. Costs of title examination shall be charged as a part of the cost of drilling the well. Approving opinion of title as a prerequisite of drilling may be waived upon approval of the owners of eighty percent (80%) of the working interest committed to the unit. Any party hereto interested in obtaining the drilling of a well may post a bond in form satisfactory to the Unit Operator in an amount equal to one and one-half times the estimated cost of the proposed well, conditioned to protect all parties hereto against any loss of their investment in the well by reason of title failure, whereupon the requirement herein for an approving opinion of title will be waived. If title subsequently fails to any tract or tracts, the title to which has been cleared for drilling under this section, the Working Interest Owner thereof shall bear the entire loss in participation in unitized substances produced after such title failure which would be attributable to the leasehold estate or working interest in such tract under the terms of this agreement, but shall not be obligated to save any parties hereto harmless from other loss occasioned thereby except to the extent of any indemnity agreement which may have been executed as hereinabove provided.

3. APPORTIONMENT OF COSTS AND BENEFITS.

Except as herein otherwise expressly provided, the cost of drilling, equipping and completing the first two test wells provided for in Section 9 of the Unit Agreement, and the cost of plugging and abandoning same if any or all

of such wells is a dry hole, shall be paid by all of the Working Interest Owners who have executed the Unit Agreement and this agreement, each in the proportion that its ownership of working interests on an acreage basis within the Unit Area bears to the total of all such interests of such parties; provided, however, that the Working Interest Owners of an area less than the area covered by the entire Unit Agreement, by agreement, may pay the cost of drilling, equipping and completing, or plugging and abandoning any or all of the first two test wells to be drilled hereunder, and such costs shall be paid by all such Working Interest Owners in the proportion provided by such agreement.

In the event any well drilled hereunder shall encounter a unitized substance in paying quantities so as to justify the establishment of a participating area or the enlargement of an existing participating area for the formation encountered, such participating area or enlargement shall be formed as provided in the Unit Agreement. On the establishment of any participating area, there shall be a retroactive adjustment of the cost of drilling, completing and equipping for production and operating of the said test well and of the cost of Field Facilities, to the end that the owners of working interests in the participating area newly established shall reimburse without interest the party or parties who paid for the costs and expenses of drilling, completing and equipping for production and operating the well less any income derived by said party or parties up to the date of settlement, and thereafter the costs incurred and benefits derived from the operation of the well shall be borne by and shall inure to the benefit of the Working Interest Owners in the participating area in proportion to their ownership of interests herein. On the enlargement of any participating area, there shall be an investment adjustment between the owners of working interests in the enlarged participating area, to the end that the investment within the enlarged participating area, including the investment in the allocated portion of Field Facilities, shall be paid for by the affected Working Interest Owners in the enlarged participating area in proportion to the interests of each therein and in proportion to their shares in the costs of operation and revenue to be derived from the enlarged participating area, and also to the end that the parties who have previously paid said costs shall be reimbursed on the basis hereinafter set forth. The affected Working Interest Owners in the participating area before its enlargement shall receive credit for the intangible

cost of drilling, completing and equipping for production all wells capable of producing unitized substances situated within said participating area. The costs to be so credited shall be measured by the average cost of drilling, completing and equipping for production wells of like character and depth in the field in a good and workmanlike manner at the time when said wells were drilled. Credit shall also be given for the casing and other tangible properties and facilities installed in the wells or used in connection with the operation thereof at a percentage of the original cost, such percentage to be determined as provided in the Accounting Procedure. The affected Working Interest Owners on any tract outside of the participating area that is to be admitted to the enlarged participating area shall likewise receive credit for the intangible cost of drilling, completing, and equipping any wells on their respective lands so admitted, together with the value of the tangible equipment, facilities, and structures located thereon and used in connection therewith, on the basis above set out. The sum total of all credit shall be the investment cost apportionable to the enlarged participating area. The investment adjustment shall be made by cash settlement among the Working Interest Owners through the Unit Operator. No credit shall be given for the previous cost of operating any wells or repairing or maintaining other property, nor shall there be any debit for or on account of production taken from wells prior to the effective date of the enlargement of the participating area.

"Field Facilities" as that term is used hereinabove shall mean facilities which are installed for serving the entire unit operation such as, but not limited to, warehouses, field offices, camps, gathering system, field tankage other than that serving a particular well, power stations, power lines, water stations and water lines. Costs of Field Facilities shall be deemed to be the tangible and intangible cost thereof as reflected by the Unit Operator's books, depreciated at the rate of four percent (4%) per annum, or fractional portion thereof, up to the period an adjustment is required. In the event book costs cannot be determined on certain classifications of equipment, the current market price in effect as of the date a well is drilled hereunder is admitted to the participating area shall be used as a basis for price. Roads shall not be considered a part of Field Facilities.

In any investment adjustment made under the provisions of this Section, there shall be a separate adjustment for intangibles, and a separate adjustment for tangibles, and in such adjustment intangibles shall be exchanged only for intangibles or money and tangibles shall be exchanged only for tangibles or money.

4. ROYALTY AND OTHER PAYMENTS OUT OF PRODUCTION.

One-eighth (1/8) of all of the unitized substances produced hereunder, or the proceeds thereof, shall be set aside for the payment or delivery in kind, as the case may be, in accord with underlying leases and other documents requiring payment of royalties, by the Unit Operator or the Working Interest Owner in accord with Section 12 of the Unit Agreement. Where any working interest is burdened by royalties in excess of one-eighth (1/8) or by overriding royalties, oil payments or other payments out of production, the required payment in excess of one-eighth (1/8) shall be borne by the owner of the working interest so burdened. Before receiving its proportionate share of the unitized substances produced hereunder or the proceeds thereof, each Working Interest Owner shall pay or secure the payment of any such excess royalties or other payments constituting a burden upon its working interest.

5. RENTALS.

Each Working Interest Owner whose interest is chargeable with rentals, minimum royalties in excess of the royalties on actual production, or other payments in the nature of rentals required to maintain its working interest rights, shall properly pay such rentals, minimum royalties or other payments. The inadvertent failure of any party to properly make such payments shall not subject such party to liabilities hereunder except to the extent hereinabove provided in the event of loss of title.

6. DETERMINATIONS BY MAJORITY VOTE.

In any matter in which the action of the Unit Operator requires the concurrence of the working interest parties hereto or any of them, Unit Operator will be governed by the decision of the owners of a majority of the working interest in the participating area involved unless otherwise specified herein or in the Unit Agreement, determined in the proportion that the acreage interest of each such party in such affected participating area bears to the total acreage interest in the affected participating area. Matters affecting the unit area as a whole, shall be determined in accordance with the proportionate acreage interest as

above defined in the entire unit area. In any case where one working interest party hereto holds such a majority interest, but less than the full working interest in the area affected, his vote shall require the concurrence of one additional party in order to constitute the controlling vote.

In any case in which it is necessary to poll the working interest parties hereto, Unit Operator shall notify all affected Working Interest Owners in writing of the question for decision and its recommended course of action. Each such Working Interest Owner shall within ten (10) days of receipt of such notice advise Unit Operator in writing of its decision thereon. Within five (5) days thereafter Unit Operator shall notify each affected Working Interest Owner in writing of the result of such poll. In the event that any Working Interest Owner fails to advise Unit Operator in writing of its decision, within the 10-day period above provided, it shall be conclusively presumed that its decision is in accord with the course of action originally recommended by Unit Operator, except that, if the matter for decision is one where the nonresponding Working Interest Owner might elect, pursuant to the provisions of this agreement, not to participate originally in some element of cost or expense but instead to pay his share thereof out of production or the proceeds thereof, it shall be conclusively presumed that such nonresponding Working Interest Owner elects to follow that latter course.

The Unit Operator, except when otherwise required by governmental authority, shall not do any of the following without first obtaining the approval of such a majority interest, as provided above, in the affected participating area or unit area, as the case may be:

a. Make any expenditure in excess of Five Thousand Dollars (\$5000.00) other than normal operating expenses, except in connection with a well, the drilling of which has been previously authorized by or pursuant to this agreement; provided, however, that nothing in this paragraph shall be deemed to prevent Unit Operator from making an expenditure in excess of said amount if such expenditure becomes necessary because of a sudden emergency which may otherwise cause loss of life or extensive damage to property. In the event of such emergency expenditure, Unit Operator shall, within fifteen (15) days after making such expenditure, give written notice to the other parties.

b. Make any arrangement for the use of facilities owned by the Working Interest Owners in one participating area for the purposes of operation and development outside said area or determine the amount of any charges therefor unless otherwise provided for in this agreement or in the Unit Agreement.

c. Dispose of any major items of surplus material or equipment having original cost of One Thousand Dollars (\$1000.00) or more, other than junk. Any such item or items of less cost may be disposed of without such consent.

d. Submit to the Supervisor or Commissioner any plan for further development of the unit area or any participating area or any proposed expansion or contraction of the unit area or any participating area.

e. Abandon any well which is producing or has produced unitized substances.

7. DRILLING OF ADDITIONAL WELLS.

In addition to the test wells required by Section 3 hereof, all other wells which Unit Operator is required to drill under the terms of the Unit Agreement or to comply with valid orders of governmental authorities having jurisdiction in the premises shall be drilled by Unit Operator for the account of the Working Interest Owners owning interests in the affected unit area or participating area, as the case may be. Unit Operator will also drill appropriate development wells within participating areas in accord with plans of development adopted by a majority vote of affected Working Interest Owners in accord with Section 6 above. Unit Operator will drill wells at regular well locations outside of the applicable participating areas upon request of the Working Interest Owner or Owners owning one hundred percent (100%) of the working interest within the spacing unit upon which the well is to be located. Such wells shall be drilled in order of their request and approval by applicable governmental authorities.

Any Working Interest Owner owning a part of the working interest in a tract desiring that a well be drilled thereon outside of the participating area established hereunder for the objective formation, shall notify Unit Operator, specifying the proposed location, objective depth and estimated cost of such well. Upon receipt of such notice the Unit Operator shall advise those other Working Interest Owners, parties hereto, who, under the provisions of this agreement, would be required to share the cost and risk of the proposed well. Each such

party shall, by responsive notice given to the Unit Operator within thirty (30) days of receipt of the aforesaid notice, elect as to whether such party desires to join in the drilling of such well. Failure to respond within said thirty (30) days shall be deemed an election not to join in the drilling of the proposed well. If all of said parties elect to join, the well shall be drilled for the account of all such parties in accord with the preceding provisions of this agreement. If less than all of such parties elect to join in the drilling of such well, Unit Operator shall, upon obtaining required governmental approvals, proceed with due diligence to drill such well at the sole cost and risk of the party or parties electing to share in the costs thereof, hereinafter called the "drilling parties." In the event any such well is a dry hole (and is not taken over for plug back or deepening), it shall be plugged and abandoned at the sole cost of the drilling parties. In the event such well is a producer, it shall be tested, completed and equipped to produce by the Unit Operator at the sole cost of the drilling parties, and such drilling parties each in proportion to its contribution to the cost of drilling, testing, completing and equipping the well shall be entitled to receive the proceeds of production from the well or, if it is capable of producing in paying quantities, shall be entitled to receive the proceeds of production allocable to the interests admitted to the participating area on account of such well, after deducting therefrom all royalties, overriding royalties, production payments and one hundred percent (100%) of the operating expenses attributable thereto, until said drilling parties shall have received therefrom two hundred percent (200%) of the costs of drilling, testing, completing and equipping said well to produce. For the purposes of this Section, where a party takes in kind, the proceeds of production from such a well shall be computed upon the same price basis as that employed for payment of royalties to the United States on comparable production from the unit area. When the drilling parties shall have been reimbursed for two hundred percent (200%) of said costs as hereinabove provided, proceeds from the well shall thereafter be shared by the Working Interest Owners within the participating area in the manner stipulated in Section 3 above. Any amounts which may be realized from sale or disposition of the well or equipment thereon, or required in connection with the drilling, testing, completing, equipping and operating thereof, shall be paid to the drilling parties and credited against the total unreturned portion

of said two hundred percent (200%), with the balance thereof, if any, to be divided, as provided in Section 3 above, among the parties owning the well. Locations of all wells drilled under this provision must be in accord with the spacing pattern adopted by the Unit Operator for the formation to which the well is projected.

8. OPTION TO TAKE OVER WELLS.

If any well drilled under this agreement is a dry hole and the party or parties owning the well are ready to abandon it but the well can be plugged back or deepened to a different formation, Unit Operator shall so notify the Working Interest Owners in the affected unit area or participating area, as the case may be, and such parties shall have the right to take over said well and cause the Unit Operator to plug back or deepen it, as the case may be, and to complete it for the account of the parties owning working interests in the unit area or participating area, as the case may be. The party or parties taking over operations shall pay to the party or parties who shall have borne the cost of drilling said well the "salvage value" of all materials. The salvage value of any such well shall be the fair market value, at the well site, of the salvageable materials comprised therein (computed in accordance with the Accounting Procedure attached hereto). Working Interest Owners so notified hereunder shall respond as provided in Section 6 above. If one, but less than all, of the affected working interest parties elects to take the well over, then Unit Operator shall take it over and conduct the specified operation for the account of the electing party or parties, and such party or parties shall be entitled to recover two hundred percent (200%) of their costs in acquiring, deepening or plugging back, testing and completing the well in the same manner as provided in Section 7 above; provided, however, that where fifty percent (50%) of the affected Working Interest Owners elect to take the well over for use in satisfying the obligation to drill a test well hereunder, the well shall be drilled for the account of all of the affected Working Interest Owners. In the event any one well is completed as a paying producer in more than one formation, the Working Interest Owners of the respective participating areas established for such formations shall arrange for appropriate allocation of investment and operating costs of such well by separate agreement.

9. CHARGES FOR DRILLING OPERATIONS.

All wells drilled on the unit area shall be drilled on a competitive contract basis at the usual rates prevailing in the field. Any Working Interest Owner or Owners may bid and contract to use its or their tools and equipment in the drilling of any wells on the unit area. Unit Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but in such event the charge therefor shall not exceed the prevailing rate in the field and such work shall be performed by Unit Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

10. ACCESS TO OPERATIONS AND INFORMATION.

Representatives of each party hereto shall have free access to the entire unit area at all reasonable times to inspect and observe operations of every kind and character thereon. Each party hereto shall have access at all reasonable times to any and all information pertaining to wells drilled, production secured, and to the books, records and vouchers relating to the operation of the unit area. Unit Operator shall, upon request, furnish to the other parties hereto daily drilling reports by post card, true and complete copies of well logs and other data relating to wells drilled, and shall also, upon request, make available samples and cuttings from any and all wells drilled on the unit area.

11. INCOME TAX ELECTION, SUB-CHAPTER K OF CHAPTER 1 SUB-TITLE A
INTERNAL REVENUE CODE.

Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of said Code and the regulation promulgated thereunder. Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,

and data required by Federal Regulation 1.761-1 (a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the property covered by this agreement is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election, each of the parties hereto hereby states that the income derived by him from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

12. DISPOSITION OF PRODUCTION.

Each of the parties hereto shall take in kind or separately dispose of its proportionate share of the unitized substances produced hereunder, exclusive of production which may be used in development and producing operations of the unit area, and in preparing and treating oil for marketing purposes, and production unavoidably lost. In the event any party hereto shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the unitized substances, Unit Operator shall have the right for the time being and subject to revocation at will by the party owning same to purchase such unitized substances or to sell the same to others at not less than the market price prevailing in the area. Each party hereto shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of unitized substances produced, saved and sold from the unit area, and on all purchases or sales each party shall execute any division order or contract of sale pertaining to its interest. Any extra expenditure incurred by reason of the taking in kind or separate disposition by any party hereto of its proportionate share of the production shall be borne by such party. In the event any party hereto shall have a market for its share of unitized substances but there is no available

market for the share of any other party or parties hereunder, the party or parties having a market will share it with those who have no market, to the end that each party will be enabled to take its share of current production without waste or without being required to store same.

13. PIPE AND OTHER TUBULAR GOODS.

Notwithstanding any limitations of the Accounting Procedure, Exhibit A, during such times as tubular goods and other equipment are not available at the nearest customary supply point, Unit Operator shall be permitted to charge the joint account of parties responsible hereunder for all tubular goods and other equipment transferred from Unit Operator's warehouse or other stocks to the unit area for use on a particular participating area with such costs and expenses as may have been incurred in purchasing, shopping, and moving the required tubular goods and other equipment to the unit area in accord with Accounting Procedure, Exhibit A; provided, however, that each affected Working Interest Owner shall be given the opportunity, in lieu of bearing its proportionate part of such costs, of furnishing in kind or in tonnage, as the parties may agree, its share of such tubular goods and other equipment required.

14. ADVANCES.

Each of the parties hereto shall promptly pay and discharge its proportionate part of all cost and expense on the basis set forth in the Accounting Procedure attached as Exhibit A. Unit Operator, at its election, may require the parties hereto to advance their respective proportion of development and operating costs according to the following conditions: On or before the first day of each calendar month, Unit Operator shall submit an itemized estimate of such costs for the succeeding calendar month to each of the parties hereto with a request for the payment of such party's proportionate part thereof. Within ten (10) days thereafter each of such parties shall pay, or secure the payment in a manner satisfactory to Unit Operator, such party's proportionate share of such estimate. Unit Operator shall credit each Working Interest Owner with the advances so made. Should any party fail to pay or secure the payment of such party's proportionate part of such estimate, the same shall bear interest at the rate of six percent (6%) per annum until paid. Adjustments between estimates and actual costs shall be made by Unit Operator at the close of each calendar month and the accounts of the parties adjusted accordingly.

15. OPERATOR'S LIEN.

Unit Operator shall have and is hereby granted a lien on the interest of each of the parties in the unit area, unitized substances produced therefrom, the proceeds thereof and the material and equipment thereon, to secure the payment of such party's proportionate part of the cost and expense of developing and operating the unitized lands and to secure the payment by any such party of such party's proportionate part of any advance estimate of such cost and expense. Unit Operator shall protect such party from all other liens arising from the operations hereunder.

16. INSURANCE.

a. Unit Operator, or Unit Operator's contractors or subcontractors, shall carry for the benefit of the joint account insurance to cover producing operations on the unit as follows:

<u>Kind</u>	<u>Policy Form</u>	<u>Minimum Limits of Liability</u>
Workmen's Compensation	Statutory	Statutory
Contractor's Public Liability	Comprehensive (including coverage under all sections of policy)	B.I. (\$ 50,000 each person (\$100,000 each accident (\$100,000 aggregate P.D. (\$ 10,000 each accident (\$ 50,000 aggregate
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. (\$ 50,000 each perseon (\$100,000 each accident P.D. (\$ 10,000 each accident

b. With respect to drilling operations conducted hereunder on the unit by the Unit Operator for the joint account of the parties hereto, Unit Operator shall maintain in effect at all times while operations are so conducted hereunder the following insurance coverage:

<u>Kind</u>	<u>Policy Form</u>	<u>Minimum Limits of Liability</u>
Workmen's Compensation	Statutory	Statutory
Contractor's Public Liability	Comprehensive (including coverage under all sections of policy)	B.I. (\$100,000 each person (\$300,000 each accident (\$300,000 aggregate P.D. (\$100,000 each accident (\$100,000 aggregate
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. (\$100,000 each person (\$300,000 each accident P.D. (\$ 10,000 each accident

17. SURRENDER.

No party hereto shall surrender to the lessor under its lease any of its working interests insofar as they relate to land located within a participating area. Should any party hereto at any time desire to surrender any of the oil and gas leases or operating agreements subject hereto, or any interest therein, insofar as they cover lands located within the unit area, it shall notify all other parties hereto in writing. Within thirty (30) days following receipt of such notice by the other parties hereto, the party desiring to surrender such working interests insofar as they affect such land may proceed to surrender the same if such right is reserved in the leases or operating agreement, unless any other party or parties hereto have, within said 30-day period, given written notice to the party desiring to surrender that they desire an assignment of said working interests insofar as they cover said land. In such event the party desiring to surrender shall assign, without express or implied warranty of title, and subject to existing covenants, contracts and reservations, all its interest in such working interests insofar as they cover such land and the wells, material and equipment located thereon, to the party or parties desiring an assignment. Thereupon such assigning party shall be relieved from all obligations thereafter accruing (but not theretofore accrued) hereunder with respect to the interest assigned. From and after the making of such assignment, the assigning party shall have no further interest in the property assigned but shall be entitled to receive from the assignees payment for its interest therein in an amount equal to the salvage value of any salvageable material located on said land. If such assignment shall run in favor of more than one party hereto, the interest covered shall be shared by such parties in the proportions that the interest of each party assignee in the lands committed to the Unit Agreement bears to the total interest of all parties assignee in the lands committed to the Unit Agreement.

18. TAXES.

Unit Operator shall, for the joint account, render for ad valorem tax purposes all personal property held and used for the joint account in connection with operations hereunder, and shall pay all ad valorem taxes thereon at the time and in the manner required by law and charge the same to the joint account of the parties hereto. Each party shall pay its proportionate part of the total taxes

so paid and expenses incurred in connection with the rendering and payment thereof in accordance with the accounting procedure attached hereto as Exhibit A. Nothing herein contained shall relieve any Working Interest Owner of the consequence of any loss of title occasioned by failure of the land owner to pay any ad valorem taxes which may be levied against the land to which its working interest relates.

19. EMPLOYEES.

The number of employees, the selection of such employees, the hours of labor and the compensation for service to be paid any and all such employees shall be determined by the Unit Operator. Such employees shall be employees of Unit Operator.

20. RELATION OF PARTIES.

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any one or more of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible for only its obligations, as set out in this agreement.

21. FORCE MAJEURE.

This agreement and the respective rights and obligations of the parties hereunder shall be subject to all valid and applicable state and federal laws, rules, regulations and orders, and in the event this agreement, or any provision thereof, is, or the operations contemplated thereby are, found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect. Unit Operator shall not be liable for any loss of property or of time caused by strikes, riots, fires, tornadoes, floods, inability to obtain tubular goods or other required materials or services, or for any other cause beyond the reasonable control of Unit Operator in the exercise of due diligence.

22. NOTICES.

All notices that are required or authorized to be given hereunder 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 to be given

at the address indicated for such party opposite its signature hereto. The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notices 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 responsive notice shall be deemed given when deposited in the United States post office or with the Western Union Telegraph Company with postage or charges prepaid.

23. FAIR EMPLOYMENT PRACTICES.

In connection with the performance of work under this agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The Unit Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

24. UNLEASED INTERESTS.

Should the owner of any unleased interest in lands lying within the unit area become a party to the Unit Agreement and this agreement, such unleased interest shall be treated, for all purposes of this agreement, as if there were an oil and gas lease covering such unleased interest on a form providing for the usual and customary one-eighth (1/8) royalty and containing the usual and customary "lesser interest clause." This agreement shall in no way affect the right of the owner of any such unleased interest to receive an amount or share of unitized substances equivalent to the royalty which would be payable or due under the terms of the Unit Agreement if such unleased interest were subject to such an oil and gas lease.

25. OUTSTANDING AGREEMENTS CONFIRMED.

This Unit Operating Agreement is made subject to any farmout agreement or operating agreement heretofore entered into by and between working interest owners who are parties hereto and the Unit Operator and nothing herein contained shall be construed as abrogating the terms or conditions of such agreements.

26. EFFECTIVE DATE AND TERM.

This Unit Operating Agreement shall become effective as of the effective date of the Unit Agreement and shall remain in full force and effect during the life of such Unit Agreement. The terms hereof shall be considered as covenants running with the ownership of the working interest committed hereto and shall be binding upon the heirs, personal representatives, successors and assigns of the parties hereto.

27. EXECUTION BY COUNTERPARTS.

This agreement may be executed in counterparts with the same force and effect as if all parties executing any counterpart hereof had executed one original document. It shall be binding upon all parties executing any counterpart hereof whether or not signed by all parties listed below as owning working interests. Any party owning working interests within the unit area may execute this agreement at any time prior to its effective date. Any such Working Interest Owner desiring to join subsequent to the effective date hereof shall be permitted to join only in accord with such terms and conditions as may then be agreeable to the Unit Operator.

EXECUTED as of the day and year first above written.

UNIT OPERATOR AND WORKING INTEREST OWNER

WILSHIRE OIL COMPANY OF TEXAS

Date: 3-13-57

By

J. H. Hake
Vice President

ATTEST:

Chas. N. Stone
Secretary

Leggett Building
Midland, Texas

OTHER WORKING INTEREST OWNERS

CARPER DRILLING COMPANY

Date: _____

By _____
President

ATTEST:

Secretary
200 Carper Building
Artesia, New Mexico

SINCLAIR OIL & GAS COMPANY

Date: _____

By _____
Vice President

ATTEST:

Assistant Secretary
Sinclair Building
Tulsa, Oklahoma

PHILLIPS PETROLEUM COMPANY

Date: _____

By _____
Vice President

ATTEST:

Assistant Secretary
Bartlesville, Oklahoma

RUTTER ROYALTY COMPANY

Date: July 7, 1957

By A. W. Rutter, Jr.
Vice President

ATTEST:

J. E. Burdin
Assistant Secretary
500 North Big Springs
Midland, Texas

Date: _____

Address: _____

Paul O. Sergeant

Witness: _____

STATE OF Texas)
COUNTY OF Midland) SS.

The foregoing instrument was acknowledged before me this 12th day of March, 1957, by J. H. Lake, Vice President of Wilshire Oil Co. of Texas, a Delaware Corporation, in behalf of said corporation.

My Commission Expires:
LORENE BOSLER, Notary Public
My Commission Expires June 1, 1957

Lorene Bosler
Notary Public in and for Midland
County, State of Texas

STATE OF Texas)
COUNTY OF Midland) SS.

The foregoing instrument was acknowledged before me this 2 day of July, 1957, by A. W. Kutter Jr., Vice President of Kutter Loyalty Company, a Texas Corporation, in behalf of said corporation.

My Commission Expires:
June 1, 1959

Helen Gonia
Notary Public in and for Midland
County, State of Texas

STATE OF)
COUNTY OF) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 195__, by _____, _____ President of _____, a _____ Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
COUNTY OF) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 195__, by _____, _____ President of _____, a _____ Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 195____, by _____, _____ President of _____, a _____ Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 195____, by _____, _____ President of _____, a _____ Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 195____, by _____, _____ President of _____, a _____ Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 195____, by _____, _____ President of _____, a _____ Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 195__, by _____.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 195__, by _____.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 195__, by _____.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 195__, by _____.

My Commission Expires:

Notary Public in and for _____
County, State of _____

EXHIBIT " 1 "

PASO-T-1955-2

Attached to and made a part of that certain agreement entitled
UNIT OPERATING AGREEMENT, SEVEN RIVERS HILLS UNIT AREA
County of Eddy, State of New Mexico
Dated the 13th day of March, 1957

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

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

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

2. Statements and Billings

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

A. Statement in detail of all charges and credits to the joint account;

B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.

C. Statements as follows:

(1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;

(2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges and credits.

3. Payments by Non-Operator

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

4. Adjustments

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

5. Audits

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

II. DEVELOPMENT AND OPERATING CHARGES

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

1. Rentals and Royalties

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

2. LABOR, TRANSPORTATION, AND SERVICES

Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor.

3. EMPLOYEE BENEFITS

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under this paragraph shall not exceed ten per cent (10%) of the total of such labor charged to the joint account.

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

5. Transportation

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

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

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

6. Service

A. Outside Services:

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

B. Use of Operator's Equipment and Facilities:

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

7. Damages and Losses to Joint Property and Equipment

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

8. Litigation Expense

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

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

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

9. Taxes

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

10. Insurance and Claims

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

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

11. FIELD SUPERVISION

A portion of the salaries and expenses of Operator's drilling superintendent, production superintendent, geologists, engineers, and other supervisory employees serving the joint property and other properties of the Operator, such charges being apportioned to all properties served on an equitable basis consistent with Operator's accounting practice.

12. ADMINISTRATIVE OVERHEAD

Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of Operator, and any portion of the office expense of the principal business office located at Midland, Texas, but which are not in lieu of field supervision charges pursuant to Paragraph 11 of this Section II incurred in operating any such properties, or any other expenses of Operator incurred in the development and operation of said properties; and Operator shall have the right to assess against the joint property covered hereby the following overhead charges:

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
	150.00	50.00	25.00	15.00

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

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

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

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

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

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

2-1/2% of the cost of tubular goods 2" and over transferred from Operator's storage, determined pursuant to Paragraph 2 of Section III below.

14. Other Expenditures

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

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

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

2. Material Furnished by Operator

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

A. New Material (Condition "A")

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

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

5. Operator's Exclusively Owned Facilities

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

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

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

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

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

1. Material Purchased by the Operator or Non-Operator

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

2. Division in Kind

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

3. Sales to Outsiders

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

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

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

3. Good Used Material

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

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

4. Other Used Material

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

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

5. Bad-Order Material

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

6. Junk

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

7. Temporarily Used Material

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

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

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

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

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

2. Reconciliation and Adjustment of Inventories

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

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

3. Special Inventories

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

RATIFICATION AND JOINDER OF UNIT OPERATING AGREEMENT
UNDER UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE
SEVEN RIVERS HILLS UNIT AREA, EDDY COUNTY, NEW MEXICO

In consideration of the execution of the Unit Operating Agreement under Unit Agreement for the Development and Operation of the said Seven Rivers Hills Unit Area, in form approved by the Secretary of the Interior, the undersigned owners of lands or leases or interests therein presently held or which may arise under existing option agreements or other interests in production covered by said Unit Operating Agreement, each to the extent of his or her particular ownership or interest, as may appear, have consented to the inclusion of said lands within the Unit Area therein defined, and do hereby approve, adopt and ratify the said Unit Operating Agreement in the form and as submitted to the United States Geological Survey in connection with the submission of Unit Agreement for the Development and Operation of the said Unit Area.

This Ratification and Joinder of Unit Operating Agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands affected hereby, and when so executed shall be binding upon the undersigned, his or her successors or assigns, subject to all the terms, provisions and conditions of said Unit Operating Agreement.

ADDRESS

SIGNATURE

ATTEST:

CARPER DRILLING COMPANY, INC.

Glenn B. Caskey
Assistant Secretary

By Stanley Carper
Stanley Carper, Executive Vice President

Date: September 23, 1957

Carper Building, Artesia, New Mexico

STATE OF)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this ____ day of _____, 19__, by _____.

My Commission Expires:

Notary Public in and for _____
County, State of _____

STATE OF **NEW MEXICO**)
COUNTY OF **EDDY**) ss.

The foregoing instrument was acknowledged before me this 23rd day of September, 1957, by Stanley Carper, Executive Vice President of CARPER DRILLING COMPANY, INC., a New Mexico Corporation, in behalf of said corporation.

My Commission Expires:

October 15, 1959

Chas. Chapin
Notary Public in and for Eddy
County, State of New Mexico

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This Ratification and Joinder of Unit Operating Agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands affected hereby, and when so executed shall be binding upon the undersigned, his or her successors or assigns, subject to all the terms, provisions and conditions of said Unit Operating Agreement.

ADDRESS

SIGNATURE

P. O. Box 933

Foster Morrell

Roswell, New Mexico

Date: September 24, 1957

STATE OF NEW MEXICO)
COUNTY OF CHAVES) ss.

The foregoing instrument was acknowledged before me this 24th day of September, 1957, by Foster Morrell and Edna E. Morrell, his wife.

My Commission Expires:
March 16, 1961

Ernest Lee Hodges
Notary Public in and for Chaves
County, State of New Mexico

STATE OF)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ President of _____, a _____ Corporation, in behalf of said corporation.

My Commission Expires:

Notary Public in and for _____
County, State of _____