

8929
80
8841

| | |
|-----------------------------|----------------------|
| BEFORE EXAMINER NUTTER | |
| OIL CONSERVATION COMMISSION | |
| <u>April</u> | EXHIBIT NO. <u>1</u> |
| CASE NO. <u>4002</u> | |

UNIT AGREEMENT FOR THE
DEVELOPMENT AND OPERATION OF THE
DALLAS RANCH UNIT AREA, CHAVES COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 17th day of December, 1968,
by and between the parties subscribing, ratifying, or consenting hereto, and
herein referred to as the "parties hereto,"

W I T N E S S E T H :

WHEREAS, the parties hereto are the owners of working, royalty, or
other oil or gas interests in the Unit Area subject to this Agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico
is authorized by an Act of the Legislature (Chapter 7, Article 11, Section 39,
N. M. Statutes 1953, annotated) to consent to and approve the development or
operation of State lands under agreements made by lessees of State lands
jointly or severally with other lessees where such agreements provide for the
Unit operation or development of part of or all of any gas pool, field, or
area; and

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

WHEREAS, the Oil Conservation Commission of the State of New Mexico
(hereinafter referred to as the "Commission") is authorized by an Act of the
Legislature (Chapter 72, Laws 1935; Chapter 65, Article 3, Section 14, N. M.
Statutes 1953, annotated) to approve this Agreement and the conservation pro-
visions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Dallas
Ranch 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. UNIT AREA:

The following described land is hereby designated and recognized as constituting the Unit Area:

T-9-S, R-26-E, N.M.P.M.:

Section 13 - All
Section 14 - S/2
Section 21 - All
Section 22 - All, except S/2 SW/4
Section 23 - All
Section 24 - All
Section 25 - All
Section 26 - All
Section 27 - All
Section 28 - All
Section 33 - All
Section 34 - All
Section 35 - N/2

T-9-S, R-27-E, N.M.P.M.:

Section 18 - All
Section 19 - All, except SE/4 SE/4

containing 8,848.60 acres, more or less.

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 lands 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 on said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes of ownership in the Unit Area render such revisions necessary or when requested by the Commissioner of Public Lands (hereinafter referred to as

"Commissioner") to do so.

All land committed to this Unit Agreement shall constitute land referred to herein as "unitized land" or "lands subject to this Agreement."

2. UNITIZED SUBSTANCES:

All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this Agreement and herein are called "unitized substances."

3. UNIT OPERATOR:

Marathon Oil Company is hereby designated as Unit Operator and, by signature hereto, commits to this Agreement all interest in unitized substances vested in it, as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in unitized substances; and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR:

Unit Operator shall have the right to resign at any time, but such resignation shall not become effective until a successor Unit Operator has been selected and approved in the manner provided for in Section 5 of this Agreement. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

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

The resignation or removal of the Unit Operator under this Agreement shall not terminate 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.

5. SUCCESSOR UNIT OPERATOR:

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

6. ACCOUNTING PROVISIONS:

The Unit Operator shall pay, in the first instance, all costs and expenses incurred in conducting Unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an Operating Agreement entered into by and between the Unit Operator and the owners of such 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, is herein referred to as the "Operating Agreement." No such 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 inconsistencies or conflict between this Unit Agreement and the Operating Agreement, this Unit Agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR:

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

8. DRILLING TO DISCOVERY:

The Unit Operator shall, within sixty (60) days after the effective date of this Agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the Unit Area and shall drill said well with due diligence to a depth sufficient to test the Ordovician formation, or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth, or until it shall, in the opinion of Unit Operator, be determined that the further drilling of said well shall 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 six thousand three hundred (6,300) feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit), Unit Operator shall continue drilling diligently, one well at a time, allowing not more than six (6) 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 the Commissioner, or until it is reasonably proven to the satisfaction of the Unit Operator that the unitized land is incapable of producing unitized substances in paying quantities in a formation, or formations, drilled hereunder. Nothing in this Section 8 shall be deemed to limit the right of the Unit Operator to resign as provided in Section 4 hereof or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation's becoming effective in order to comply with the requirements of this Section 8.

Any well commenced prior to the effective date of this Agreement upon the Unit Area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner 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 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, and all rights, privileges, and obligations granted and assumed by this Unit Agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES:

Should unitized substances in paying quantities be discovered upon the Unit Area, the Unit Operator shall, on or before six (6) months from the time of the completion of the initial discovery well and within thirty (30) days after the expiration of each 12-month period thereafter, file a report with the Commissioner and Commission of the status of the development of the Unit Area and the development contemplated for the following 12-month period.

It is understood that one of the main considerations for the approval of this Agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, Unit Operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the Unit Operator should fail to comply with the above covenant for reasonable development, this Agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but, in such event, the basis of participation by the working interest owners shall remain the same as if this Agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the Unit Operator and the lessees of record in the manner prescribed by Section 7-11-14, N. M. Statutes 1953, annotated, of intention to cancel on account of any alleged breach of said covenant for reasonable development, and any decision entered thereunder shall be subject to appeal in the manner prescribed by Section 7-11-17, N. M. Statutes 1953, annotated; and, provided further, in any event the Unit Operator shall be given a reasonable opportunity, after a final determination, within which to remedy any default, failing in which, this Agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

10. PARTICIPATION AFTER DISCOVERY:

Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this Unit Agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this Agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this Agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION:

All unitized substances produced from each tract in the unitized area established under this Agreement, except any part thereof used for production or development purposes hereunder (including, but not limited to, drilling, operating, camp, and other production or development purposes, and repressuring or recycling), or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land; 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 its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tract of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES:

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

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

All rentals, if any, due under any leases embracing lands other than lands of the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases, and all royalties due under the

terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the Unit Operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating, or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and, provided further, that such right of withdrawal shall terminate on the termination of this Unit Agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production, or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED IN SO FAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA:

The terms, conditions, and provisions of all leases, subleases, operating agreements, and other contracts relating to the exploration, drilling, development, or operation for oil or gas of the lands committed to this Agreement shall be, as of the effective date hereof, and the same are hereby expressly modified and amended in so far as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended, in so far as necessary, to coincide with the term of this Agreement. The approval of this Agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this Agreement, but otherwise to remain in full force and effect. Each lease committed to this Agreement, in so far as it

applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this Agreement remains in effect; provided, that drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lease committed to this Agreement. Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, would continue in full force and effect thereafter. The commencement, completion, continued operation, or production of a well, or wells, for unitized substances on the Unit Area shall be construed and considered as the commencement, completion, continued operation, or production on each of the leasehold interests committed to this Agreement, and operations or production pursuant to this Agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto; and there shall be no obligation on the part of the Unit Operator or any of the owners of the respective leasehold interests committed hereto to drill offsets to wells as between the leasehold interests committed to this Agreement, except as provided in Section 9 hereof.

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 as to the portion not committed, and the terms of such leases shall apply separately as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this Agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil and gas, or either of them, 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 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 oil or gas, said lease shall continue in full force and

effect as to all of the lands embraced therein, so long thereafter as oil and gas, or either of them, are being produced in paying quantities from any portion of said lands.

14. CONSERVATION:

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

15. DRAINAGE:

In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the Unit Area and is draining unitized substances from the lands embraced in the Unit Area, Unit Operator shall drill such offset well, or wells, as a reasonably prudent operator would drill under the same or similar circumstances.

16. COVENANTS RUN WITH LAND:

The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer, or conveyance of interest in land or leases subject hereto shall be, and hereby is, conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after the Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM:

This Agreement shall become effective upon approval by the Commissioner and, unless terminated earlier by agreement of the owners of the working interests as provided in this Section 17, shall terminate in two years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof, in which case this Agreement shall remain in effect so long as unitized substances are being

produced from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production, and so long thereafter as the unitized substances so discovered can be produced as aforesaid. This Agreement may be terminated at any time by not less than seventy-five per cent (75%), on an acreage basis, of the owners of the working interests signatory hereto, with the approval of the Commissioner. Likewise, the failure to comply with the drilling requirements of Section 8 hereof may subject this Agreement to termination as provided in said Section 8.

18. RATE OF PRODUCTION:

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

19. APPEARANCES:

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

20. 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 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 the party sending the notice, demand or statement.

21. UNAVOIDABLE DELAY:

All obligations under this Agreement requiring the Unit Operator to

commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this Agreement shall be suspended while, but only so long as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, war, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

22. LOSS OF TITLE:

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

23. NONDISCRIMINATION:

In connection with the performance of work under this Agreement, Unit Operator agrees to comply with all of the provisions of Section 202 (1) to (7), inclusive, of Executive Order 11246 (30 F.R. 12319), as amended, which are set forth in their entirety on Exhibit "C" attached hereto and incorporated herein by reference.

24. SUBSEQUENT JOINDER:

Any oil or gas interest in lands within the Unit Area not committed hereto prior to the submission of this Agreement for final approval by the Commissioner or the Commission may be committed hereto by the owner or owners of

such rights subscribing or consenting to this Agreement or executing a ratification thereof and, if such owner is also a working interest owner, by subscribing to the Operating Agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of the month following the filing with the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this Agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to Unit Operator their proportionate share of the Unit expense incurred prior to such party's, or parties', joinder in the Unit Agreement, and the Unit Operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

25. COUNTERPARTS:

This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

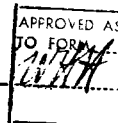
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite their respective names the date of execution.

UNIT OPERATOR

MARATHON OIL COMPANY

Date 12-11-68

By D. W. Franklin
D. W. Franklin,
Division Exploration Manager



Address: P. O. Box 552
Midland, Texas 79701

WORKING INTEREST OWNERS

BELL PETROLEUM COMPANY

Date _____

By _____

Address: Suite 400 - 700 Wilshire Blvd.

Los Angeles, Calif. 90017

HUMBLE OIL & REFINING COMPANY

Date _____

By _____

Address: P. O. Box 1600

Midland, Texas 79701

ATLANTIC RICHFIELD COMPANY

Date _____

By _____

Address: P. O. Box 1978

Roswell, New Mexico 88201

ALLIED CHEMICAL CORPORATION

Date _____

By _____

Address: 1300 Wilco Building

Midland, Texas 79701

PHILLIPS PETROLEUM COMPANY

Date _____

By _____

Address: P. O. Box 791

Midland, Texas 79701

JOSEPH E. SEAGRAM & SONS, INC.

Date _____

By _____

Address: P. O. Box 4067
Midland, Texas 79701

J. M. HUBER CORPORATION

Date _____

By _____

Address: 922 Vaughn Building
Midland, Texas 79701

Date _____

N. L. STEVENS, JR.

Address: 606 Security National Bldg.
Roswell, New Mexico 88201

STATE OF TEXAS X
 X
COUNTY OF HARRIS X

The foregoing instrument was acknowledged before me this 11th day of December, 1968, by D. W. Franklin, Division Exploration Manager of MARATHON OIL COMPANY, an Ohio corporation, on behalf of said corporation.

Luther L. Hinton
Notary Public in and for
Harris County, Texas

LUTHER L. HINTON
Notary Public in and for Harris County, Texas
My commission expires My Commission Expires June 1, 1969

STATE OF CALIFORNIA X
 X
COUNTY OF LOS ANGELES X

The foregoing instrument was acknowledged before me this _____ day
of _____, 196__, by _____,
of BELL PETROLEUM COMPANY, a _____ corporation, on behalf of said
corporation.

Notary Public in and for
Los Angeles County, California

My commission expires _____

STATE OF TEXAS X
 X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day
of _____, 196__, by _____,
of HUMBLE OIL & REFINING COMPANY, a Delaware corporation, on behalf of said
corporation.

Notary Public in and for
Midland County, Texas

My commission expires _____

STATE OF NEW MEXICO X
 X
COUNTY OF CHAVES X

The foregoing instrument was acknowledged before me this _____ day
of _____, 196__, by _____,
of ATLANTIC RICHFIELD COMPANY, a Pennsylvania corporation, on behalf of said
corporation.

Notary Public in and for
Chaves County, New Mexico

My commission expires _____

STATE OF TEXAS X
 X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day
of _____, 196__, by _____,
of ALLIED CHEMICAL CORPORATION, a _____ corporation, on behalf of
said corporation.

Notary Public in and for
Midland County, Texas

My commission expires _____

STATE OF TEXAS X
 X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day
of _____, 196__, by _____,
of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on behalf of said cor-
poration.

Notary Public in and for
Midland County, Texas

My commission expires _____

STATE OF TEXAS X
 X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day
of _____, 196__, by _____,
of JOSEPH E. SEAGRAM & SONS, INC., a _____ corporation, on behalf
of said corporation.

Notary Public in and for
Midland County, Texas

My commission expires _____

STATE OF TEXAS X
 X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day
of _____, 196__, by _____,
of J. M. HUBER CORPORATION, a _____ corporation, on behalf of
said corporation.

Notary Public in and for
Midland County, Texas

My commission expires _____

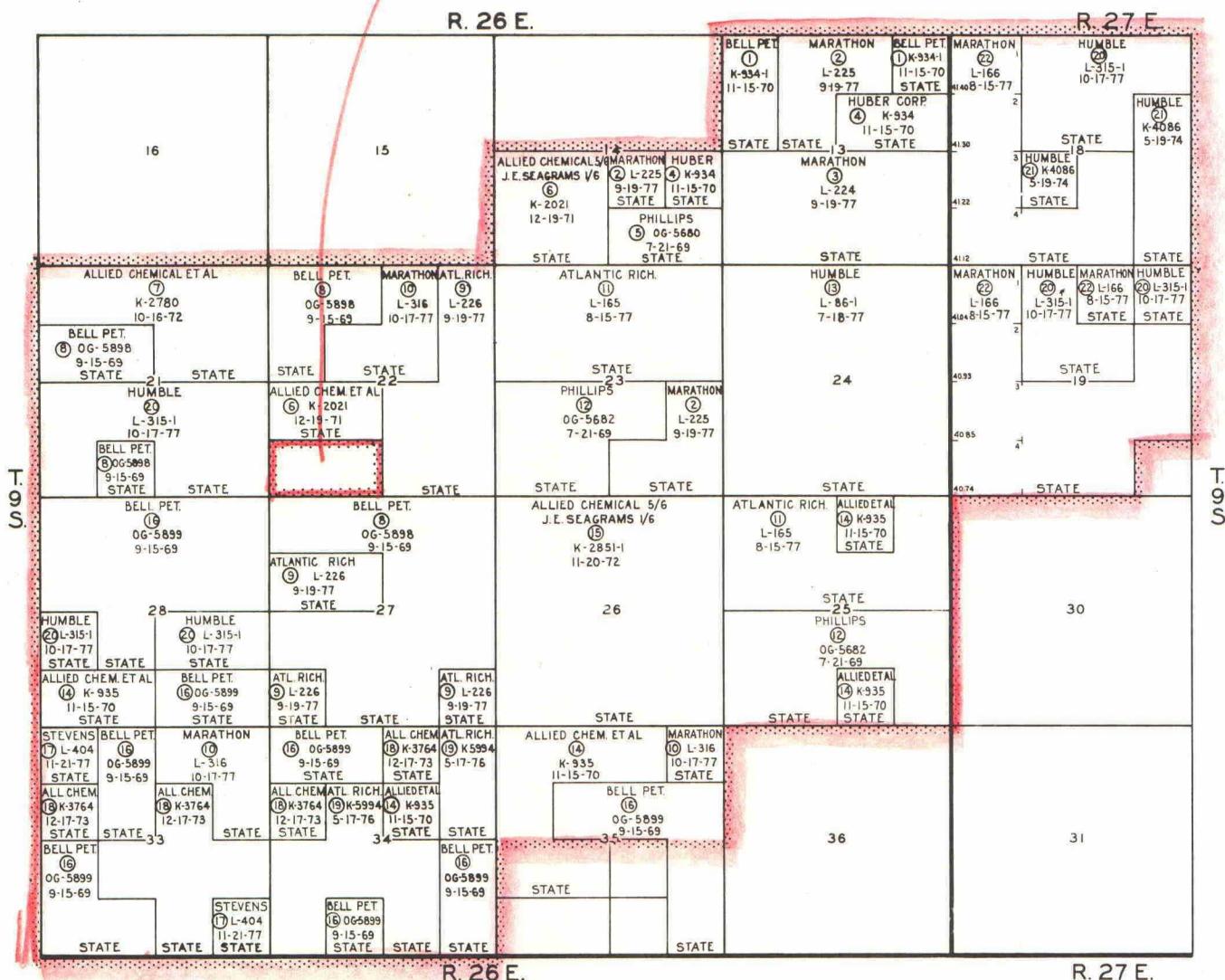
STATE OF NEW MEXICO X
 X
COUNTY OF CHAVES X

The foregoing instrument was acknowledged before me this _____ day
of _____, 196__, by N. L. STEVENS, JR.

Notary Public in and for
Chaves County, New Mexico

My commission expires _____

out - Champion declines to join unit



| STATE LEASE NUMBERS IN UNIT | | | |
|--------------------------------|------------|----------|-----------|
| ① K-934-1 | ⑫ OG-5682 | ⑲ K-5994 | ⑳ L-315-1 |
| ② L-225 | ⑬ L-86-1 | ⑳ K-3764 | ㉑ K-4086 |
| ③ L-224 | ⑭ K-935 | ㉒ L-166 | |
| ④ K-934 | ⑮ K-2851-1 | | |
| ⑤ OG-5680 | ⑯ OG-5899 | | |
| ⑥ K-2021 | ⑰ L-404 | | |
| ⑦ K-2780 | ⑱ K-3764 | | |
| ⑧ OG-5898 | ㉓ K-5994 | | |
| ⑨ L-226 | ㉔ L-315-1 | | |
| ⑩ L-316 | ㉕ K-4086 | | |
| ⑪ L-165 | ㉖ L-166 | | |

LEGEND



UNIT OUTLINE

③ TRACT NUMBER

STATE OF NEW MEXICO LAND 8848.60 Acres

EXHIBIT A DALLAS RANCH UNIT CHAVES COUNTY, NEW MEXICO

*All WI owners have verbally committed.
All acreage is state acreage.
Land Comm has given preliminary approval
2 ORRI (under Bell acreage)*

EXHIBIT B
SCHEDULE SHOWING THE PERCENTAGE AND KIND
OF OWNERSHIP OF ALL LANDS IN THE
DALLAS RANCH UNIT AREA - CHAVES COUNTY, NEW MEXICO

| Tract number | Description | No. of Acres | Serial No. and Expiration Date | Basic Royalty & Percentage | Overriding Royalty and Percentage | Working Interest and Percentage |
|---|--|-----------------|--------------------------------------|----------------------------------|--|--|
| TOWNSHIP 9 - SOUTH, RANGE 26 - EAST, N.M.P.M. | | | | | | |
| 1 | Sec. 13: NE/4 NE/4; W/2 NW/4 | 120.00 | K-934-1 11-15-70 | State - All (12.5%) | Miles A. Colligan 1.75% William K. Barnhill 1.75% | Bell Petroleum Company 100.00000% |
| 2 | Sec. 13: NW/4 NE/4; E/2 NW/4 Sec. 14: NW/4 SE/4 Sec. 23: E/2 SE/4; SW/4 SE/4 | 280.00 | L-225 9-19-77 | State - All (12.5%) | None | Marathon Oil Company 100.00000% |
| 3 | Sec. 13: S/2 | 320.00 | L-224 9-19-77 | State - All (12.5%) | None | Marathon Oil Company 100.00000% |
| 4 | Sec. 13: S/2 NE/4 Sec. 14: NE/4 SE/4 | 120.00 | K-934 11-15-70 | State - All (12.5%) | None | J. M. Huber Corporation 100.00000% |
| 5 | Sec. 14: S/2 SE/4 | 80.00 | OG-5680 7-21-69 | State - All (12.5%) | None | Phillips Petroleum Company 100.00000% |
| 6 | Sec. 14: SW/4 Sec. 22: N/2 SW/4 | 240.00 | K-2021 12-19-71 | State - All (12.5%) | None | Allied Chemical Corporation 83.33333% Joseph E. Seagram & Sons, Inc. 16.666667% |
| 7 | Sec. 21: NE/4; N/2 NW/4 | 240.00 | K-2780 10-16-72 | State - All (12.5%) | None | Allied Chemical Corporation 83.33333% Joseph E. Seagram & Sons, Inc. 16.666667% |
| 8 | Sec. 21: S/2 NW/4; SE/4 SW/4 | 720.00 | OG-5898 9-15-69 | State - All (12.5%) | Miles A. Colligan 1.75% William K. Barnhill 1.75% | Bell Petroleum Company 100.00000% |

(Cont'd)

| Tract Number | Description | No. of Acres | Serial No. and Expiration Date | Basic Royalty & Percentage | Overriding Royalty and Percentage | Working Interest and Percentage |
|-----------------|-----------------------|-----------------|--------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| 8 | | | | | | |
| (Cont'd) | | | | | | |
| Sec. 22: | N/2 NW/4; SW/4 NW/4 | | | | | |
| Sec. 27: | NE/4; N/2 NW/4 | | | | | |
| | N/2 SW/4; SE/4 SW/4; | | | | | |
| | N/2 SE/4; SW/4 SE/4; | | | | | |
| 9 | | | | | | |
| Sec. 22: | E/2 NE/4; SE/4 | 400.00 | L-226 | State - All | None | Atlantic Richfield |
| Sec. 27: | S/2 NW/4; SW/4 SW/4; | | 9-19-77 | (12.5%) | | Company 100.00000% |
| 10 | | | | | | |
| Sec. 22: | W/2 NE/4; SE/4 NW/4 | 280.00 | L-316 | State - All | None | Marathon Oil Company |
| Sec. 33: | N/2 NE/4; SE/4 NE/4 | | 10-17-77 | (12.5%) | | 100.00000% |
| Sec. 35: | NE/4 NE/4 | | | | | |
| 11 | | | | | | |
| Sec. 23: | N/2 | 600.00 | L-165 | State - All | None | Atlantic Richfield |
| Sec. 25: | E/2 NE/4; SW/4 NE/4; | | 8-15-77 | (12.5%) | | Company 100.00000% |
| | NW/4 | | | | | |
| 12 | | | | | | |
| Sec. 23: | SW/4; NW/4 SE/4 | 480.00 | OG-5682 | State - All | None | Phillips Petroleum |
| Sec. 25: | SW/4; NW/4 SE/4; | | 7-21-69 | (12.5%) | | Company 100.00000% |
| | E/2 SE/4 | | | | | |
| 13 | | | | | | |
| Sec. 24: | All | 640.00 | L-86-1 | State - All | None | Humble Oil and Refining |
| | | | 7-18-77 | (12.5%) | | Company 100.00000% |
| 14 | | | | | | |
| Sec. 25: | NW/4 NE/4; SW/4 SE/4; | 360.00 | K-935 | State - All | None | Allied Chemical |
| | | | 11-15-70 | (12.5%) | | Corporation 83.33333% |
| Sec. 28: | S/2 SW/4; | | | | | Joseph E. Seagram and |
| Sec. 34: | SW/4 NE/4 | | | | | Sons, Inc. 16.666667% |
| Sec. 35: | NW/4 NE/4; N/2 NW/4 | | | | | |
| | SW/4 NW/4. | | | | | |

(Cont'd)

| Tract Number | Description | No. of Acres | Serial No. and Expiration Date | Basic | | Working Interest and Percentage |
|--|--|-----------------|--------------------------------------|-------------------------|--|---|
| | | | | Royalty & Percentage | Overriding Royalty and Percentage | |
| 15 | Sec. 26: All | 640.00 | K-2851-1 11-20-72 | State - All (12.5%) | None | Allied Chemical Corporation 83.33333% Joseph E. Seagram & Sons, Inc. 16.66667% |
| 16 | Sec. 28: N/2; NE/4 SW/4; S/2 SE/4 Sec. 33: E/2 NW/4; W/2 SW/4; SE/4 SW/4 Sec. 34: N/2 NW/4; SE/4 SW/4 E/2 SE/4. Sec. 35: S/2 NE/4; SE/4 NW/4. | 960.00 | OG-5899 9-15-69 | State - All 12.5% | Miles A. Colligan 1.75% William K. Barnhill 1.75% | Bell Petroleum Company 100.00000% |
| 17 | Sec. 33: NW/4 NW/4; SE/4 SE/4 | 80.00 | L-404 11-21-77 | State - All (12.5%) | None | Norman L. Stevens, Jr. 100.00000% |
| 18 | Sec. 33: SW/4 NE/4; SW/4 NW/4; NE/4 SW/4; N/2 SE/4; SW/4 SE/4. Sec. 34: NW/4 NE/4; SW/4 NW/4 | 320.00 | K-3764 12-17-73 | State - All (12.5%) | None | Allied Chemical Corporation 100.00000% |
| 19 | Sec. 34: E/2 NE/4; SE/4 NW/4; N/2 SW/4; SW/4 SW/4; W/2 SE/4 | 320.00 | K-5994 5-17-76 | State - All (12.5%) | None | Atlantic Richfield Company 100.00000% |
| 20 | Sec. 21: SE/4; N/2 SW/4; SW/4 SW/4 Sec. 28: N/2 SE/4; NW/4 SW/4 | 760.00 | L-315-1 10-17-77 | State - All (12.5%) | None | Humble Oil & Refining Company 100.00000% |
| TOWNSHIP 9 - SOUTH, RANGE 27 - EAST N.M.P.M. | | | | | | |
| | Sec. 18: N/2 NE/4; SW/4 NE/4; E/2 NW/4. | | | | | |
| | Sec. 19: NE/4 NE/4; SW/4 NE/4; E/2 NW/4. | | | | | |

(Cont'd)

| Tract Number | Description | No. of Acres | Serial No. and Expiration Date | Basic | | Working Interest and Percentage |
|-----------------|--|-----------------|--------------------------------------|-------------------------|--------------------------------------|---|
| | | | | Royalty & Percentage | Overriding Royalty and Percentage | |
| 21 | Sec. 18: SE/4 NE/4; E/2 SE/4; NE/4 SW/4 | 160.00 | K-4086 5-19-74 | State - All (12.5%) | None | Humble Oil & Refining Company 100.00000% |
| 22 | Sec. 18: Lots 1, 2, 3, 4; SE/4 SW/4; W/2 SE/4. Sec. 19: Lots 1, 2, 3, 4; NW/4 NE/4; SE/4 NE/4; E/2 SW/4; W/2 SE/4; NE/4 SE/4. | 728.60 | L-166 8-15-77 | State - All (12.5%) | None | Marathon Oil Company 100.00000% |

TOTAL: Twenty-two tracts comprising 8,848.60 Acres of State of New Mexico Lands.

EXHIBIT "C"

Attached to and Made a Part of the
Unit Agreement for the Development and Operation of the
Dallas Ranch Unit Area, Chaves County, New Mexico

Equal Employment Opportunity Provision

During the performance of this contract, Unit Operator (Marathon Oil Company) agrees as follows:

- (1) The Unit Operator will not discriminate against any employee or applicant for employment because of race, religion, color, sex, or national origin. The Unit Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, religion, color, sex, or national origin. Such action 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 in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.
- (2) The Unit Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Unit Operator, state that all qualified applicants will receive consideration for employment without regard to race, religion, color, sex, or national origin.
- (3) The Unit Operator will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Unit Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Unit Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (5) The Unit Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Unit Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated, or suspended in whole or in part, and the Unit Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.
- (7) The Unit Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Unit

Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the Unit Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Unit Operator may request the United States to enter into such litigation to protect the interests of the United States.

EXHIBIT "D"

Attached to and Made a Part of the
Unit Agreement for the Development and Operation of the
Dallas Ranch Unit Area, Chaves County, New Mexico

Equal Opportunity in Employment Certification of Nonsegregated Facilities

The Unit Operator, Marathon Oil Company, by entering into this contract, certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. It certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. Unit Operator agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, or national origin, because of habit, local custom, or otherwise. It further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

Notice to Prospective Subcontractors of Requirement
For Certifications of Nonsegregated Facilities

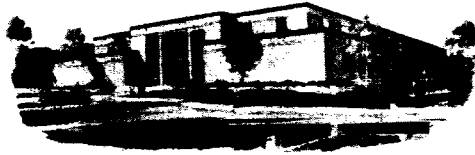
A Certification of Nonsegregated Facilities, as required by the May 9, 1967, order (32 F.R. 7439, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually, or annually).

MARATHON OIL COMPANY

By D. W. Franklin
D. W. Franklin,
Division Exploration Manager



State of New Mexico



Commissioner of Public Lands



December 18, 1968

GUYTON B. HAYS
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO

Marathon Oil Company
P. O. Box 552
Midland, Texas 79701

Re: Proposed Dallas Ranch Unit
Chaves County, New Mexico

ATTENTION: Mr. W. T. Butler

Gentlemen:

The Commissioner of Public Lands has this date approved as to form and content your proposed Dallas Ranch Unit, Chaves County, New Mexico.

Enclosed is your Official Receipt No. I 46027 in the amount of Seventy-Five (\$75.00) Dollars which covers the filing fee.

Very truly yours,

GUYTON B. HAYS
COMMISSIONER OF PUBLIC LANDS
BY:
Malcolm M. Long, Supervisor
Unit Division

GBH/TB/ML/s
encl. 1.

| | |
|-----------------------|---------------|
| BEFORE EXAMINER NOTED | |
| RECEIVED BY: _____ | |
| DATE: _____ | EXHIBIT NO. 2 |
| CASE NO. 46027 | |

EXHIBIT

To Application of Marathon Oil Company
For
Designation of

Dallas Ranch Unit Area
Township 9 South, Ranges 26 & 27 East
Chaves County, New Mexico

GEOLOGIC REPORT

| | |
|-----------------------------|------|
| BEFORE EXAMINER NUTTER | |
| OIL CONSERVATION COMMISSION | |
| EXHIBIT NO. | 3 |
| CASE NO. | 1002 |

LOCATION AND INTRODUCTION

The proposed unit is located 16 miles northeast of Roswell, New Mexico in Township 9 South, Ranges 26 and 27 East. The land surface is relatively flat.

GEOLOGY

The unit area is located on a subsurface anticline which plunges in a northeasterly direction at approximately 50 feet per mile. Crossing this anticline is the truncated edge of the pre-Mississippian dolomite which is commonly referred to as the "Devonian" by the oil industry. Regional correlations indicate that this section is probably really Ordovician in age and will be referred to as such in this report. This carbonate section is the primary objective and is expected to range from 200' thick on the east side of the unit to nearly zero on the west side. The trap is formed by structural contours closing against the truncation line and against a permeability barrier on the northwest flank. The existence of this barrier is indicated by the Union #1 Kitchens (Unit K, Section 6, Township 9 South, Range 26 East) which encountered 178' of Ordovician section and only recovered gas in volumes too small to measure and 675' of mud. Permeability and water occurs eastward as evidenced by the Honolulu Oil Corp. #1 McConkey (Unit D, Section 10, Township 9 South, Range 26 East). A drill stem test of this section recovered 800' of salt water and surfaced gas in quantities too small to measure in 180 minutes. The top of this test interval was 6205' (-2362') and is the highest occurrence of water on the prospect. Due to the preponderance of gas shows along this truncation line, it is felt that this is a gas, rather than oil, prospect.

The unit outline, as shown on the structure map, is based on a gas reservoir with an assumed gas-water contact at approximately -1900'. In general, half section increments were used with the exception of 40 acres of fee land in the SE/4 of the SE/4 of Section 19, Township 9 South, Range 27 East.

In our opinion, the unit outline represents a reasonable interpretation of an exploratory unit which might be productive. The unit agreement will provide for enlargement upon appropriate authorizations in the event that areas presently outside the proposed unit prove to be productive.

Upon approval of the unit, Marathon Oil Company, as unit operator, proposes to drill a well to basement at approximately 6000'. The location is tentatively proposed to be in the SW/4 of the SW/4 of Section 23, Township 9 South, Range 26 East. The top of the Ordovician is expected to be at about 5600' using an estimated elevation of 3800'.

Respectfully submitted,

MARATHON OIL COMPANY

By J. E. Hartman

Attachments: Exhibit Ordovician Structure Map
Exhibit Cross Section A-A'