

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 3102
Order No. R-2768

APPLICATION OF SUNSET INTERNATIONAL
PETROLEUM CORPORATION FOR APPROVAL
OF THE MAL-GRA UNIT AGREEMENT, LEA
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on September 9, 1964, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 16th day of September, 1964, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, 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 applicant, Sunset International Petroleum Corporation, seeks approval of the Mal-Gra Unit Agreement covering 600 acres, more or less, of State land in Township 17 South, Range 33 East, NMPM, Lea County, New Mexico.

(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the Mal-Gra Unit Agreement is hereby approved.

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(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby 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, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

LEA COUNTY, NEW MEXICO
TOWNSHIP 17 SOUTH, RANGE 33 EAST

Section 20: S/2
Section 21: W/2 NW/4, SE/4 NW/4,
W/2 SW/4, and SE/4 SW/4
Section 29: NE/4 NE/4

containing 600 acres, more or less.

(4) That the unit area may be enlarged or contracted as provided in the unit agreement; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.

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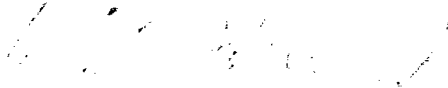
(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


JACK M. CAMPBELL, Chairman


E. S. WALKER, Member


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



esr/

DEARNLEY-MEIER REPORTING SERVICE, Inc.

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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

September 9, 1964

EXAMINER HEARING

IN THE MATTER OF:

Application of Sunset International
Petroleum Corporation for a Unit
Agreement, Lea County, New Mexico

-and-

Application of Sunset International
Petroleum Corporation for a Waterflood
Project, Lea County, New Mexico.

Case No. 3102 &
3103

BEFORE:

MR. DANIEL S. NUTTER, Examiner

TRANSCRIPT OF HEARING

MR. NUTTER: We will now call Case No. 3102.

MR. DURRETT: Application of Sunset International
Petroleum Corporation for a Unit Agreement, Lea County,
New Mexico. And Case 3103, Application of Sunset International
Petroleum Corporation for a Waterflood Project, Lea County,
New Mexico.



MR. MORRIS: If the Examiner please, I am Richard Morris of the law firm of Seth, Montgomery, Federici and Andrews in Santa Fe, appearing on behalf of the Applicant, Sunset International Petroleum Corporation in Cases 3102 and 3103. May I assume these cases are consolidated for the purpose of Hearing?

MR. NUTTER: Cases 3102 and 3103 are consolidated for the purpose of Hearing.

MR. MORRIS: We will have one witness, Mr. Bob Arrendiell, and we will ask that he be sworn at this time.

MR. DURRETT: Will you stand and be sworn, please?

B O B A R R E N D I E L L, having been first duly sworn, was examined and testified as follows:

MR. MORRIS: May we have Exhibits One through Nine marked at this time.

(Whereupon, Applicant's Exhibits One through Nine marked for identification.)

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Arrendiell, will you please state your name, position, by whom you are employed, and where you are located.

A My name is Robert W. Arrendiell, I am employed by Sunset International Petroleum Corporation, and I am Production

Manager of the West Texas Division. I am located in Midland, Texas.

Q Have you previously testified before the New Mexico Oil Conservation Commission or one of it's examiners and have your qualifications been accepted as a matter of record?

A Yes, I have.

MR. MORRIS: If the Examiner please, may Mr. Arrendiell testify as an expert witness?

MR. NUTTER: Yes, sir.

Q (By Mr. Morris) Are you familiar with the Application of Sunset International Petroleum Corporation in Cases 3102 and 3103?

A Yes, sir, I am.

Q Briefly, what is it that Sunset seeks by these Applications?

A Sunset International Petroleum seeks approval of the Mal-Gra Unit Area comprising six hundred acres of State land in Township 17 South, Range 33 East, Lea County, New Mexico; and authority to institute a waterflood project in the Maljamar Pool in this -- in the Mal-Gra Unit Area by injection of water into the Grayburg formation through eight wells in Sections 20 and 21, Township 17 South, Range 33 East, Lea County, New Mexico.

Q Referring to what has been marked as Exhibit Number

One in Case 3102; would you state what that document is, please?

A This is the Unit operating agreement. This is the Unit Agreement between Sunset International Petroleum and the non-operating partners of Mal-Gra Unit, Maljamar Field, Lea County, New Mexico.

Q Referring first to Exhibit "A", to the Unit Agreement which is a plat attached to the agreement, itself; will you point out the pertinent features shown on that plat?

A This is a plat over the development to date in the Maljamar Pool in the Unit Area as outlined by the dotted line.

Q This plat does not show all of the development in the Maljamar Pool?

A No, sir; this is a part of the southeast end of the Maljamar Pool.

Q Are the various leases and tracts within the Unit Area given some designation on that plat?

A They are. They are five leases, the Sunset International Petroleum has three leases. State "B" in Section 20, the State "D" in Section 21 and the State "E" in Section 29. The State "D" and "E" have been communitized by previous order of the New Mexico Oil Conservation Commission.

Also, in Section 20 the Unit Area contains the Carper Drilling Company's Phillip's State "B" Lease, and in Section 21 the Unit Area contains the Phillip's Petroleum

Lemex Number Twelve, and it's 40 acres.

Q Now, are these tracts and tract numbers as shown on this plat deed attached to Exhibit "B" of this Unit Agreement?

A They are, and the --

Q If you will refer to that Exhibit "B". Referring to that Exhibit would you state first who the working interests are in this Unit?

A The working interests are Sunset International Petroleum Corporation, Charles P. Miller, who owns an interest in this Sunset International Petroleum State Lease, Carper Company, and Phillips Petroleum Company.

Q What is the status of each of these interests with respect to their commitment to the Unit Agreement at the present time?

A Phillips Petroleum Company has written us a letter stating they would contribute their Lemex Twelve and it's 40 acres to the Unit; Carper Drilling Company has written us a letter stating they could contribute their Phillips well and its 40 acres to the Unit; Charles P. Miller is presently trying to sell his interest in this Unit; and we talked to him last night and he said that the party that he is dealing with is interested in this Unit, but he won't be able to commit himself or his party, of course, until the first of next week.

Q Has there been a flat refusal by Mr. Miller to enter your Unit?

A No, sir.

Q You are still negotiating with him?

A Yes, sir.

Q And you would negotiate with any subsequent purchaser of this acreage?

A That's right; yes, sir.

Q Who are the over-riding royalty interests in this Unit Area?

A Phillips Petroleum Company owns an over-riding royalty and Charles Miller and wife also own an over-riding royalty.

Q So there are no over-riding royalty interests who are not working interests?

A That's right.

Q So the status of the commitments of the over-riding interests is the same as the status of the working interests?

A That's correct.

Q I believe you said at the outset that all of the acreage in this Unit is owned by the State of New Mexico?

A That's correct.

Q Has the Unit Agreement been submitted to the State Land Office for its consideration?

A It has been.

Q And what is the status of that now?

A Mrs. Marian Ray approved the text and the form. We had this in the wrong form at first. She said if we would put it in this form, like Exhibit Number One, it would be satisfactory.

Q Referring to the Unit Agreement, itself, what are the unitized formations?

A The unitized formation is the Grayburg lime formation.

Q No other formations except the Grayburg lime?

A No other formations.

MR. MORRIS: For the Examiner's reference -- I had a hard time finding it too; it is on page two, sub paragraph J of the agreement.

Q (By Mr. Morris) Will you briefly describe the plan of operations contemplated by this Unit Agreement?

A This -- well, let's see. This is an extension of the waterflood for the northwest. We believe that the Grayburg formation underlying this area is a good waterflood prospect. The waterfloods for the northwest have been successful and we plan to extend the waterflood pattern down through this particular area and put it on injection by injecting fresh water into this Grayburg lime through eight wells, and waterflood the area.

Q What does the Unit Agreement contemplate as far as

tract participation formula?

A We have decided that the tract should participate at the rate of seven percent ultimate production and thirty percent current production, and have one formula.

Q Mr. Arrendiell, in your opinion will operation of your waterflood project under the proposed Unit Agreement promote ease of operation and protect correlative rights?

A It will. It almost has to be done in order to do that.

Q Turning now to the Application for authority to waterflood these properties, I would refer you first to what has been marked Exhibit One in Case 3103 and ask you to state what it is and what it shows.

A Exhibit One is a map showing the product development in the Maljamar Pool, Grayburg lime formations, southeast end of the Maljamar Pool. The hash line shows the Unit area, the blue area immediately to the northwest is the flood presently in progress by Pennzoil. Immediately to the northwest of that enclosed in the brown line is a Baxter flood, and immediately to the northwest of that is a flood by Great Western Drilling Corporation. This plat shows development within two miles of the subject area.

The yellow circles in the subject area are the wells that we plan to put on injection. The wells circled in blue

are the Pennzoil injection wells. The wells circled in brown are the Baxter injection wells, and the orange wells to the northwest are the Great Western injection wells. This shows the waterflood pattern, five spot pattern to the northwest, and it shows that we plan to continue that pattern as we move southeast with this flood.

Q Mr. Arrendiell, I notice that there appears to be at the present time what would appear to be a break in the pattern in that the Pennzoil development is not complete on a five spot pattern as it approaches your proposed waterflood area. Is there any plan for further development by Pennzoil of their injection pattern?

A Mr. Ken Huddleston of Pennzoil has informed us that they plan to convert the Number One Well in the southeast southeast of Section 19 to water injection and the Number Four Well in the southeast southeast of Section -- No, I am sorry; it is in Number Four Well in the southeast of the northeast of 20; and the Number Ten Well, which is the southeast southeast of 17, just as soon as we commence and put our proposed area on injection.

Q Is this a matter of informal understanding or is there an actual lease line agreement?

A We have a lease line agreement which we plan on signing as soon as we know approximately when we will go on injection

here.

That lease line agreement calls for mutual cooperation along that common boundary between Sunset's proposed area and the Pennzoil area, and it also calls on our arrangements about abandoning the well and taking over the well; one side or the other wants to quit.

Q By Pennzoil putting on injection their wells One, Four, and Ten, it would make a perfect five spot pattern coming into your subject property?

A That's correct.

Q You stated that the proposal is to waterflood the Grayburg formation in this area; is the San Andres formation susceptible to waterflooding in this area?

A The San Andres formation lies directly under the Grayburg lime and it has been Pennzoil's experience that where they have the San Andres open it will not take water. This has been determined by injectivity studies. They have run profiles and tests and found that the water will not go into the San Andres lime.

Where the San Andres porosity is almost entirely missing under this proposed area, and for that reason, and for those two reasons we have asked that we unitize only the Grayburg lime.

Q And your injection of water is contemplated only into

the Grayburg, not the San Andres?

A That's correct.

Q Turning now to the status of the production in the waterflood area, would you refer to what has been marked Exhibit Two in this case, state what it shows?

A In Exhibit Two lies the present production over all of the wells in the proposed area. What we call the Mal-Gra Unit Area shows that these wells are at or below the economic limit at this time.

Q From what source and as of what date is this information taken?

A This information is taken from our well records and it is and has been taken as of April 1st, 1964.

Q Referring next to what has been marked as Exhibit Three in this case, would you state what that shows?

A This is a tabulation of the production from the time the leases were developed by months up to April 1st, 1964, including the Sunset International State "B", and the State "D" and "E" and the Phillips Lemex Number Twelve and the Carper Drilling Company and the Phillips State Number One.

Q I notice that this Exhibit has the totals on a lease by lease basis. Do you have the total figure?

A That total, excuse me.

Q For the entire waterflood area?

A That figure totals, the accumulative production to date from the unitized, the proposed unitized area is 489,188 barrels.

Q Referring next to what has been marked Exhibit "A" and "B", "C" and "D"; would you state what they show?

A These exhibits are graphical presentations of the tabulations which are shown on Exhibit Three. We call these production decline curves.

Q And you have a production decline curve on each of the subject leases within the waterflood area?

A That's right. Four "A" is a State "B" lease, Sunset State "B" lease; Four "B" is Sunset "D" and "E" leases. Exhibit Four "C" is Carper Phillips State lease and Four "D" is the Phillips Lemex Twelve.

Q Referring now to what has been marked Exhibit Five in this case, which appears to be a tabulation of data on each of your proposed injection wells; would you summarize the more pertinent data shown on that tabulation?

A This Exhibit shows the total depth of the wells, whether or not the wells are completed open hole or through perforations, cased holes; it shows the amount of cement on the eight and five eighths inch casing and on the five and a half or four and a half inch casing where we do not have temperature surveys, we have shown how much cement has been pumped behind the

production string into the proposed -- in these proposed injection wells.

Q Turning now to what has been marked Exhibit Six "A" through Six "H", will you state what those are, please?

A These are copies of electric logs on each proposed injection well in the proposed area, and each log is marked with red pencil to show the proposed injection zone.

Q The entire injection interval is shown whether it be perforated by perforations or open hole; is that correct?

A That's correct.

Q Referring now to what has been marked Exhibit Seven "A" through Seven "H", would you state what those are, please?

A These are diagrammatical sketches of each injection well, showing the casing and the open hole or cased hole and tubing with packers, packed off at the well head, valves, eight and five eighths inch casing, and the cement of each proposed injection well.

I might add here we have no scale on this diagram and we propose -- therefore, I will explain our packer's picture in the bottom of each hole.

We propose to run a packer, Guiberson type packer on the bottom of the two inch tubing and set this packer in the shoe joints of the production casing in each injection well so that we can isolate our injection to the Grayburg lime

porosity.

MR. NUTTER: That is on the six wells that are completed open hole. Where would the packer be set on the perforated --

A Well, no, sir. You see, what I mean on those two wells the packer will be set within a few feet, probably within thirty feet above the topmost perforations in those wells.

Q (By Mr. Morris) In each case injection will be through tubing and under packer?

A That's correct.

Q Do you have any plans to fill the annulus between the casing and tubing with any fluid?

A We plan to fill the annulus between the production string and the two inch tubing, treat it with fresh water so we can have an indication of any trouble that might show up.

Q And a pressure gauge will be placed on the annulus?

A Yes, sir.

Q By this method, Mr. Arrendiell, is it your opinion that the water can be injected into each of these injection wells and the injected water confined to the Grayburg formation?

A Yes, sir, I believe.

Q Is it your opinion that this method of injection will afford adequate protection to other productive zones in this area and any fresh water that may exist in this area?

A Yes, I believe it.

Q Would you give the Examiner some information concerning the water system that you plan to install, the source of the water that you have developed and what your water requirements are for this project?

A We have been guided by the experience of the floods to the northwest and we have worked quite closely with Pennzoil and we will obtain our water from the Caprock Water Company. We believe by our best estimates that we will need about seven and two thirds million barrels of water for this project through its entire life. We plan on building a water injection plant that will be rated at 3,000 PSI which we will inject approximately 400 barrels of water per day into each injection well at that pressure, 3,000 PSI during the fill up period which will be approximately five or six months, and then we believe that the injection rate will fall to 300 to 350 barrels of water per day at 3,000 PSI, and we hope to continue that injection rate through the life of the flood.

Q And what will be the source of your water for this project?

A The source of the water is from the Ogallala formation, this is a very shallow water zone. The Caprock produces this water.

Q Has an analysis been made of this water that you plan

to use for injection purposes?

A An analysis has been made by the Caprock Water System.

Q Is that analysis as shown on what has been marked as Exhibit "A" in this case?

A That's correct. This water, excuse me, go ahead.

Q Has this water been found to be compatible for injection into the Grayburg formation?

A Yes, it has. This is the same water that Pennzoil is injecting into this Grayburg lime to the north of us, northwest.

Q Referring to our last Exhibit, Exhibit Number Nine; would you summarize the reservoir data and primary production data shown on that Exhibit from which you have made your statements of the performance of this area or expected performance of this area on secondary recovery?

A The first paragraph covers the Grayburg in general.

The total pore space for eleven and a half percent porosity is 892.2 barrels per acre foot. The Connate water saturation is thirty-five percent, 312.3 barrels per acre foot. The original water saturation is sixty-five percent; 579.9 barrels per acre foot. The formation volume factor of the Grayburg oil is 1.2. We arrived at the original STO in place of 483.2 barrels per acre foot. The primary oil produced to 4-1-64 in the proposed Unit area is 27.1 barrels per acre foot. The remaining primary oil is 2.6 barrels per acre foot. Our

estimate of waterflood reserves (oil) are thirty-five barrels per acre foot. Residual oil after waterflooding is 384.8 barrels per acre foot.

The next paragraph gives the primary reserves information from the proposed Unit area. The area contains 600 acres; average net pay is thirty feet. The primary acre-feet, 18,000; cumulative recovery to 4-1-64 is 489,188 barrels of oil; the remaining primary reserves are 45,812 barrels of oil; and the ultimate primary reserves are 535,000 barrels.

The next paragraph is the waterflood reserves data. The area again is 600 acres; average net pay, thirty feet; waterflood is 18,000; and waterflood recovery per acre foot is 35; and the ultimate waterflood reserves are 630,000 barrels of water.

Q So you expect to recover a little more on secondary than your ultimate primary?

A That is correct.

Q Why is Sunset International seeking approval of this Commission for approval of the waterflood project at this time?

A This area is now at the economic limit on a primary production basis, and it has a large waterflood value. We are offset to the north by a flood in operation, and referring back to Exhibit One, the map of the area with the colors on it; the well offset to the north to the Carper Phillips-State Number One is the Pennzoil well called the Number One well.

It's spot location would be the southwest of the northeast of Section 8, South 33; this well is presently making 150 barrels of oil per day which is up from, say, 17 barrels of oil per day before waterflood was commenced. We need to get this area on injection in order to protect our position in this formation.

Q If the proposed waterflood project is approved by this Commission, what will its effect be upon your other offset operators, particularly those to the south and east?

A When we go on injection here, if it is approved by the Commission, it will urge the operators to the south to put their leases on injection. They are -- excuse me.

Q Go ahead.

A They are presently negotiating to put their water area on injection. We attended some of the earlier meetings and then decided that we had better move ahead of them and put our area on because it was going to take them a little longer than we thought we could stand.

Q So the offsetting areas you would consider right for a waterflood project and plans for that are under consideration?

A That's correct. Their wells are -- their wells are producing about the same as ours, they are at or below the economic limit.

Q Were Exhibits One through Nine either prepared by you or under your direction?

A That's right, they were.

MR. MORRIS: At this time we offer Applicant's Exhibits One through Nine with all their various parts, into evidence in Case 3103 and we also offer Exhibit One in Case 3102, into evidence.

MR. NUTTER: Exhibit One in Case 3102 and Exhibits One through Nine in Case 3103 are admitted into evidence.

MR. MORRIS: I would like to state for the record that the Application in this Case together with all Exhibits that were furnished to the Commission with the Application have been furnished to the office of the State Engineer. We have received a copy of a letter from that office, the original of which I hope is in the Commission's files on this case.

MR. NUTTER: Is that the letter dated September 4, from Mr. Frank Irby?

MR. MORRIS: Yes, that's correct. I ask that be made a part of the record in this Case, also.

MR. NUTTER: That letter will be a part of the record.

MR. MORRIS: That is all I have at this time.

MR. NUTTER: Mr. Arrendiell, your formula, seventy percent ultimate and thirty percent current; now, you gave us the figures on Exhibit Number Three in Case 3103 of the primary production up to April 1st, of '64, and you also gave us these production decline curves; could you give us what the

remaining reserves of each of the four tracts is as far as primary is concerned, come up to the total ultimate figures?

A Let me see. It might take me just a minute, but I am sure I can give it to you.

On Exhibit "C" which is a part of what we have offered as Exhibit One --

MR. NUTTER: In the Unit Agreement?

A Yes, in the first case, the last page.

It gives the reserves, number of wells, the gross reserves, the ultimate primary in the current production last six months.

MR. NUTTER: So this ultimate primary would be the production decline curve plus the explanation of the curves?

A Yes, sir.

MR. NUTTER: So the remaining oil I could get by subtracting the figures given on Exhibit Three from the ultimate primary here?

A That's correct.

MR. NUTTER: In Exhibit "C" of the Unit Agreement?

A That's correct.

MR. NUTTER: And also your current rate of production is included here in the Exhibit "C" of the Unit Agreement?

A That's correct. Now, let me point out the current production listed on Exhibit "C" of the Unit Agreement is the

last six months of 1963.

MR. NUTTER: Is that what is going to be used in figuring the participation according to this page right here; this is the participation of the tracts?

A That's right.

MR. NUTTER: Good.

I believe that's all I have. Does anyone have any questions of Mr. Arrendiell?

You may be excused.

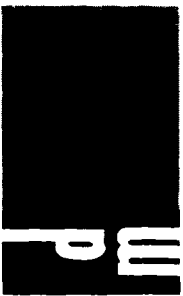
(Witness excused.)

MR. NUTTER: Do you have anything further, Mr. Morris?

MR. MORRIS: No, sir.

MR. NUTTER: Does anyone have anything further they wish to offer in Case 3102 or 3103?

We will take the cases under advisement.



STATE OF NEW MEXICO)
COUNTY OF BERNALILLO) ss

I, CHARLES WALKER, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me; and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

Witness my Hand and Seal this 2th day of October, 1964.

Charles F. Lloyd Walker
NOTARY PUBLIC

My Commission Expires:

March 25, 1968.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 3102 & 3103 heard by me on 9/9, 1964.
[Signature], Examiner
New Mexico Oil Conservation Commission

DOCKET: EXAMINER HEARING - WEDNESDAY - SEPTEMBER 9, 1964

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Elvis A. Utz, Alternate Examiner:

- CASE 3099: Application of Leonard Nichols for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the approval of the West Maljamar Unit Area comprising 440 acres more or less, of Federal and fee lands in Sections 4 and 9, Township 17 South, Range 32 East, Lea County, New Mexico.
- CASE 3100: Application of Leonard Nichols for a waterflood extension, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the extension of the waterflood project which he operates in Sections 2, 3, 10, and 11, Township 17 South, Range 32 East, Maljamar Pool, Lea County, New Mexico, by the addition of 6 water injection wells in Sections 4 and 9, same township. The original flood was authorized as the Boller-Nichols Waterflood Project, Roberts Pool, by Order No. R-1538.
- CASE 3101: Application of John L. Cox for directional drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to whipstock and directionally drill the Texas Pacific South Crossroads Unit Well No. 1, the surface location of which is 1980 feet from the South and West lines of Section 10, Township 10 South, Range 36 East, Lea County, New Mexico, in such a manner as to bottom said well in the South Crossroads Devonian Pool at a point 2310 feet from the South line and 1980 feet from the West line of said Section 10.
- CASE 3102: Application of Sunset International Petroleum Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Mal-Gra Unit Area comprising 600 acres, more or less, of State land in Township 17 South, Range 33 East, Lea County, New Mexico.
- CASE 3103: Application of Sunset International Petroleum Corporation for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the Maljamar Pool in its Mal-Gra Unit Area by the injection of water into the Grayburg formation through 8 wells in Sections 20 and 21, Township 17 South, Range 33 East, Lea County, New Mexico.

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Docket No. 24-64

Examiner Hearing - September 9, 1964

CASE 3104: Application of Sunset International Petroleum Corporation for directional drilling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks authority to whipstock and directionally drill the Humble State Well No. 1, the surface location of which is 1980 feet from the South line and 660 feet from the West line of Section 16, Township 8 South, Range 33 East, Chaves County, New Mexico, in such a manner as to bottom said well in the Tobac-Pennsylvanian Pool at a point within 150 feet of the center of the SW/4 SW/4 of said Section 16.

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BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

APPLICATION OF SUNSET INTERNATIONAL
PETROLEUM CORPORATION FOR APPROVAL
OF THE MAL-GRA UNIT AREA, LEA COUNTY,
NEW MEXICO

Case No. 3102

APPLICATION

Comes now Sunset International Petroleum Corporation by its attorneys and requests approval by the New Mexico Oil Conservation Commission of the Mal-Gra Unit Agreement, Lea County, New Mexico, and in support of its application states:

1. Applicant is the owner and operator of the following described acreage located in Township 17 South, Range 33 East, Lea County, New Mexico:

Section 20: $S\frac{1}{2}$

Section 21: $NW\frac{1}{4}NW\frac{1}{4}$, $S\frac{1}{2}NW\frac{1}{4}$
 $NW\frac{1}{4}SW\frac{1}{4}$, $S\frac{1}{2}SW\frac{1}{4}$

Section 29: $NE\frac{1}{4}NE\frac{1}{4}$,

comprising 600 acres, more or less.

2. Applicant proposes to operate the above described area under the provisions of the Mal-Gra Unit Agreement, a copy of which is attached to this application.

3. Approval of this Unit Agreement by the New Mexico Oil Conservation Commission will facilitate the operation of a waterflood project in the unit area and will thereby prevent waste. Operation of the unit area under the proposed Unit Agreement will protect the correlative rights of all interests.

WHEREFORE, applicant requests that this application be set for hearing before the Commission or one of its Examiners and that the Commission enter its order approving the Mal-Gra Unit Agreement.

SETH, MONTGOMERY, FEDERICI & ANDREWS

By

Richard J. Mevin

P. O. Box 2307

Santa Fe, New Mexico

Attorneys for Applicant Sunset International Petroleum Corporation

Unit
Agmt.
P-25-64



JIM BACA
COMMISSIONER

State of New Mexico

OFFICE OF THE

Commissioner of Public Lands

Santa Fe

3102

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

January 22, 1993

Rodey, Dickason, Sloan, Akin & Robb, P.A.
P.O. Box 1357
Santa Fe, New Mexico 87501

Attention: Mr. Paul Cooter

Re: Resignation\Designation of Successor Unit Operator
Mal-Gra Unit
Lea County, New Mexico

Dear Mr. Cooter:

This office is in receipt of your letter of January 12, 1993, together with a Resignation/Designation of Unit Operator wherein Brothers Production Company has resigned as Unit Operator of the Mal-Gra Unit and The Wiser Oil Company has been selected as the successor Unit Operator of said Unit.

The Commissioner of Public Lands has this date approved the resignation of Brothers Production Company and the Designation of The Wiser Oil Company as the successor Unit Operator of this unit. This change in operators is effective August 1, 1992.

Please be advised that Quality Production Corporation cannot operate any wells as an agent to The Wiser Oil Company on this unit, until a \$20,000 Multiple Surface Improvement Damage Bond has been filed with this office. Enclosed is a copy of the required bond.

If you have any questions, or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: 

FLOYD O. PRANDO, Director
Oil/Gas and Minerals Division
(505) 827-5744
JB/FOP/pm
encls.

cc: Reader File
BLM
OCD
The Wiser Oil Company
Quality Production Company

GOVERNOR
JACK M. CAMPBELL
CHAIRMAN

State of New Mexico
Oil Conservation Commission



LAND COMMISSIONER
E. S. JOHNNY WALKER
MEMBER

P. O. BOX 2088
SANTA FE

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

September 16, 1964

Mr. Richard S. Morris
Seth, Montgomery, Federici & Andrews
Attorneys at Law
Post Office Box 2307
Santa Fe, New Mexico

Re: CASE NO. 3102 and 3104
ORDER NO. R-2768 and R-2770
APPLICANT Sunset International

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ir/

Carbon copy of order also sent to:

Hobbs OCC x

Artesia OCC x (R-2770)

Aztec OCC

OTHER

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 3102
Order No. R-2768

APPLICATION OF SUNSET INTERNATIONAL
PETROLEUM CORPORATION FOR APPROVAL
OF THE MAL-GRA UNIT AGREEMENT, LEA
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on September 16, 1964, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 16th day of September, 1964, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, 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 applicant, Sunset International Petroleum Corporation, seeks approval of the Mal-Gra Unit Agreement covering 600 acres, more or less, of State land in Township 17 South, Range 33 East, NMPM, Lea County, New Mexico.

(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the Mal-Gra Unit Agreement is hereby approved.

-2-

CASE No. 3102

Order No. R-2768

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby 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, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

LEA COUNTY, NEW MEXICO

TOWNSHIP 17 SOUTH, RANGE 33 EAST

Section 20: S/2

Section 21: N/2 NW/4, SE/4 NW/4,

W/2 SW/4, and SE/4 SW/4

Section 29: NE/4 NE/4

containing 600 acres, more or less.

(4) That the unit area may be enlarged or contracted as provided in the unit agreement; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico; that this order shall terminate inso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.

-3-

CASE No. 3102

Order No. B-1768

(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JACK M. CAMPBELL, Chairman

E. S. WALKER, Member

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

S E A L

err/

UNIT AGREEMENT

MAL-GRA UNIT

MALJAMAR FIELD

LEA COUNTY, NEW MEXICO

UNIT AGREEMENT
MAL-GRA UNIT
LEA COUNTY, NEW MEXICO

100: SEP 4 1971 27

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE

MAL GRA UNIT

MALJAMAR FIELD

LEA COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, ENTERED INTO AS OF THE 1ST DAY OF AUGUST, 1964, BY AND BETWEEN THE PARTIES SUBSCRIBING, RATIFYING, OR CONSENTING HERETO, AND HEREIN REFERRED TO AS "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 (SECTION 3, CHAPTER 88, LAWS 1943 AS AMENDED BY SECTION 1 OF CHAPTER 162, LAWS OF 1951) TO CONSENT TO OR APPROVE THIS AGREEMENT ON BEHALF OF THE STATE OF NEW MEXICO, INSOFAR AS IT COVERS AND INCLUDES LANDS AND MINERAL INTERESTS OF THE STATE OF NEW MEXICO; 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) TO AMEND WITH THE APPROVAL OF THE LESSEE, ANY OIL AND GAS LEASE EMBRACING STATE LANDS SO THAT THE LENGTH OF THE TERM OF SAID LEASE MAY COINCIDE WITH THE TERMS OF THE UNITIZED DEVELOPMENT AND OPERATION OF STATE LANDS; AND

WHEREAS, THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO IS AUTHORIZED BY LAW (CHAPTER 72, LAWS OF 1935, AS AMENDED BY CHAPTER 193, LAWS OF 1937, CHAPTER 166, LAWS OF 1951, 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 UNIT AREA SUBJECT TO THIS AGREEMENT TO GIVE REASONABLE EFFECTIVE CONTROL OF OPERATION THEREIN; AND

WHEREAS, IT IS THE PURPOSE OF THE PARTIES HERETO, TO ENABLE INSTITUTION AND CONSUMMATION OF SECONDARY RECOVERY OPERATIONS, TO CONSERVE NATURAL RESOURCES, PREVENT WASTE AND SECURE THE OTHER BENEFITS OBTAINABLE THROUGH DEVELOPMENT AND OPERATION OF THE UNIT AREA SUBJECT TO THIS AGREEMENT UNDER THE TERMS, CONDITIONS, AND LIMITATIONS HEREIN SET FORTH.

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND PROMISES HEREIN CONTAINED, THE PARTIES HERETO COMMIT TO THIS AGREEMENT THEIR RESPECTIVE INTERESTS IN THE BELOW DEFINED UNIT AREA SUBJECT TO THIS AGREEMENT, AND AGREE SEVERALLY AMONG THEMSELVES AS FOLLOWS:

1. DEFINITIONS: FOR THE PURPOSE OF THIS AGREEMENT, THE FOLLOWING TERMS AND EXPRESSIONS AS USED HEREIN SHALL MEAN:

- (A) "COMMISSION" IS DEFINED AS THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO.
- (B) "COMMISSIONER" IS DEFINED AS THE COMMISSIONER OF PUBLIC LANDS OF THE STATE OF NEW MEXICO.
- (C) "PAYING QUANTITIES" IS DEFINED AS PRODUCTION OF UNITIZED SUBSTANCES IN QUANTITIES SUFFICIENT TO PAY FOR THE COST OF PRODUCING SAME FROM WELLS COMPLETED IN THE UNITIZED FORMATION.
- (D) "PRODUCTIVE ACREAGE" IS DEFINED AS AND SHALL MEAN THE ACREAGE REASONABLY PROVEN TO BE PRODUCTIVE OF UNITIZED SUBSTANCES FROM THE UNITIZED FORMATION.
- (E) "ULTIMATE RECOVERY" SHALL MEAN AND REFER TO THE NUMBER OF BARRELS OF OIL AVAILABLE FOR PRODUCTION, AS DETERMINED AND DESCRIBED IN TABLE C ATTACHED HERETO, FROM THE TRACTS HEREINAFTER DESCRIBED IN EXHIBIT A & B BY PRESENTLY KNOWN AND COMMONLY ACCEPTED PRIMARY RECOVERY PRODUCTION METHODS.
- (F) "CURRENT PRODUCTION" SHALL MEAN AND REFER TO THE TOTAL PRODUCTION OF OIL DURING AND INCLUDING THE PERIOD OF JULY TO DECEMBER OF THE YEAR 1963.
- (G) "ROYALTY INTEREST" MEANS A RIGHT TO OR INTEREST IN ANY PORTION OF THE UNITIZED SUBSTANCES OR PROCEEDS THEREOF OTHER THAN WORKING INTEREST.
- (H) "ROYALTY OWNER" MEANS A PARTY HERETO WHO OWNS A ROYALTY INTEREST.
- (I) "SECONDARY PRODUCTION" IS DEFINED AS AND SHALL BE ALL OIL PRODUCED FROM THE UNITIZED FORMATION AFTER THE REMAINING PRIMARY PRODUCTION HAS BEEN PRODUCED.
- (J) "UNITIZED FORMATION" IS DEFINED AS AND SHALL MEAN THAT HERETOFORE ESTABLISHED UNDERGROUND RESERVOIR UNDERLYING UNIT AREA AND COMMONLY KNOWN AS THE GRAYBURG FORMATION OF THE PERMIAN AGE BEING FURTHER IDENTIFIED AS THE PRODUCING FORMATION FOUND IN SUNSET INTERNATIONAL PETROLEUM CORPORATIONS STATE B-1 WELL LOCATED IN THE NE/4, SE/4 SECTION 20 - T17S-R33E, LEA COUNTY, NEW MEXICO BETWEEN THE DEPTHS OF 4,230' AND 4,380'.
- (K) "UNITIZED SUBSTANCES" IS DEFINED AS AND SHALL MEAN ALL OF THE OIL AND GAS CONTAINED IN OR PRODUCED FROM THE UNITIZED FORMATION.
- (L) "UNITIZED LAND" OR "LAND SUBJECT TO THIS AGREEMENT" IS DEFINED AS AND SHALL MEAN THOSE LANDS WITHIN THE UNIT AREA WHICH ARE COMMITTED TO THIS AGREEMENT.

- (M) "UNIT MANAGER" IS DEFINED AS THE PERSON OR CORPORATION APPOINTED BY THE WORKING INTEREST OWNERS TO PERFORM THE DUTIES OF THE UNIT OPERATOR UNTIL THE SELECTION AND QUALIFICATION OF A SUCCESSOR UNIT OPERATOR AS PROVIDED FOR IN SECTION 8 HEREOF.
- (N) "UNIT OPERATING AGREEMENT" IS DEFINED AS AND SHALL MEAN THE AGREEMENT ENTERED INTO (SEPARATELY OR COLLECTIVELY) BY AND BETWEEN THE UNIT OPERATOR AND THE WORKING INTEREST OWNERS AS PROVIDED IN SECTION 9, ENTITLED, "UNIT OPERATING AGREEMENT, MAL-GRA UNIT, LEA COUNTY, NEW MEXICO", OR ANY AMENDMENT OR SUPPLEMENT THERETO.
- (O) "USABLE WELL" IS DEFINED AS A WELL WHICH HAS BEEN DRILLED IN THE UNIT AREA TO THE DEPTH OF THE UNITIZED FORMATION AND HAS CASING IN THE HOLE IN CONDITION FOR USE AS EITHER A PRODUCING WELL OR AN INJECTION WELL, AND ON WHICH WELL THERE HAS BEEN FILED WITH THE STATE OF NEW MEXICO, ON OR BEFORE THE EFFECTIVE DATE OF THIS AGREEMENT, A WELL RECORD AND COMPLETION REPORT (FORM C-105) OR REQUEST FOR OIL ALLOWABLE (FORM C-104) AND WHICH WELL HAS PRODUCED SOME OIL FROM THE UNITIZED FORMATION AND HAS HAD AN ALLOWABLE GRANTED FOR IT BY THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO.
- (P) "WORKING INTEREST" MEANS AN INTEREST IN UNITIZED SUBSTANCES BY VIRTUE OF A LEASE, OPERATING AGREEMENT, FEE TITLE, OR OTHERWISE, INCLUDING A CARRIED INTEREST, WHICH INTEREST IS CHARGEABLE WITH AND OBLIGATED TO PAY OR BEAR, EITHER IN CASH OR OUT OF PRODUCTION OR OTHERWISE, ALL OR A PORTION OF THE COST OF DRILLING, DEVELOPING, PRODUCING, AND OPERATING THE UNITIZED FORMATION. ANY INTEREST IN UNITIZED SUBSTANCES WHICH IS A WORKING INTEREST AS OF THE DATE THE OWNER THEREOF EXECUTES OR RATIFIES THIS AGREEMENT SHALL THEREAFTER BE TREATED AS A WORKING INTEREST FOR ALL PURPOSES OF THIS AGREEMENT.
- (Q) "WORKING INTEREST OWNER" MEANS A PARTY HERETO WHO OWNS A WORKING INTEREST. THE OWNER OF OIL AND GAS RIGHTS THAT ARE FREE OF LEASE OR OTHER INSTRUMENT CONVEYING THE WORKING INTEREST TO ANOTHER SHALL BE REGARDED AS A WORKING INTEREST OWNER TO THE EXTENT OF SEVEN-EIGHTHS (7/8) OF HIS INTEREST IN UNITIZED SUBSTANCES, AND AS A ROYALTY OWNER WITH RESPECT TO HIS REMAINING ONE-EIGHTH (1/8) INTEREST THEREIN.

2. UNIT AREA AND PARTICIPATION: THE FOLLOWING DESCRIBED LAND IS HEREBY DESIGNATED AND RECOGNIZED AS CONSTITUTING THE UNIT AREA AS TO WHICH THIS AGREEMENT BECOMES EFFECTIVE, TO WIT:

NEW MEXICO PRINCIPAL MERIDAN, NEW MEXICO

T.17S., R.33E.

SECTION 20: S/2

21: W/2 W/2, SE/4 SW/4 AND SE/4 NW/4

29: NE/4 NE/4

SITUATED IN LEA COUNTY, NEW MEXICO, CONTAINING 600 ACRES, MORE OR LESS, AND SUCH ADDITIONAL LANDS TO WHICH THIS AGREEMENT MAY BE EXTENDED, ALL AS HEREIN PROVIDED

EXHIBIT "A" ATTACHED HERETO IS A MAP SHOWING THE UNIT AREA AND THE BOUNDARIES AND IDENTITY OF TRACTS AND LEASES IN SAID UNIT 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 COMPRISING EACH TRACT, PERCENTAGE OWNERSHIP OF EACH WORKING INTEREST OWNER IN EACH TRACT, AND THE PERCENTAGES OF PARTICIPATION. 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 COMMISSIONER. TWO COPIES OF SUCH REVISION SHALL BE FILED WITH THE COMMISSIONER.

THE ABOVE DESCRIBED UNIT AREA MAY, WHEN PRACTICABLE, BE EXPANDED TO INCLUDE THEREIN ANY ADDITIONAL TRACT OR TRACTS REGARDED AS REASONABLY NECESSARY OR ADVISABLE FOR THE PURPOSES OF THIS AGREEMENT. SUCH EXPANSION SHALL BE EFFECTED IN THE FOLLOWING MANNER:

- (A) THE OWNER OR OWNERS OF THE WORKING INTEREST IN AND TO A TRACT OR TRACTS DESIRING TO BRING SUCH TRACT OR TRACTS INTO THE UNIT AREA SHALL FILE AN APPLICATION THEREFOR WITH UNIT OPERATOR REQUESTING SUCH ADMISSION
- (B) UNIT OPERATOR SHALL CIRCULATE A NOTICE TO EACH WORKING INTEREST OWNER OF THE PROPOSED EXPANSION, SETTING OUT THE BASIS FOR ADMISSION, THE UNIT PARTICIPATION TO BE ASSIGNED TO SUCH TRACT OR TRACTS, AND OTHER PERTINENT DATA. AFTER NEGOTIATION (AT WORKING INTEREST OWNERS; MEETING OR OTHERWISE) IF WORKING INTEREST OWNERS HAVING NINETY PER CENT (90%) OF THE WORKING INTEREST IN THE UNIT AREA AGREE TO SUCH TRACT OR TRACTS BEING BROUGHT INTO THE UNIT AREA, THEN UNIT OPERATOR SHALL, AFTER PRELIMINARY CONCURRENCE BY THE COMMISSIONER,
 - (1) PREPARE A NOTICE OF PROPOSED EXPANSION DESCRIBING THE CONTEMPLATED CHANGES IN THE BOUNDARIES OF THE UNIT AREA, THE REASON THEREFOR, THE BASIS FOR ADMISSION OF THE ADDITIONAL TRACT OR TRACTS, THE UNIT PARTICIPATION TO BE ASSIGNED THERETO AND THE PROPOSED EFFECTIVE DATE THEREOF, PREFERABLY THE FIRST DAY OF A MONTH SUBSEQUENT TO THE DAY OF NOTICE; AND
 - (2) DELIVER COPIES OF SAID NOTICE TO THE COMMISSIONER, EACH WORKING INTEREST OWNER (MAILING COPY OF SUCH NOTICE TO THE LAST KNOWN ADDRESS OF EACH SUCH WORKING INTEREST OWNER) AND TO THE LESSEE AND LESSOR WHOSE INTERESTS ARE AFFECTED, ADVISING SUCH PARTIES THAT THIRTY (30) DAYS WILL BE ALLOWED FOR SUBMISSION TO THE UNIT OPERATOR OF ANY OBJECTIONS TO SUCH

PROPOSED EXPANSIONS; AND

- (3) FILE, UPON THE EXPIRATION OF SAID THIRTY (30) DAY PERIOD AS SET OUT IN ITEM 2 IMMEDIATELY ABOVE, WITH THE COMMISSIONER THE FOLLOWING: (A) EVIDENCE OF MAILING COPIES OF SAID NOTICE OF EXPANSION; (B) AN APPLICATION FOR SUCH EXPANSION; (C) AN INSTRUMENT CONTAINING THE APPROPRIATE JOINDERS IN COMPLIANCE WITH THE PARTICIPATION REQUIREMENT OF SECTION 31, "NONJOINDER AND SUBSEQUENT JOINGER", INFRA; AND (D) COPY OF ANY OBJECTIONS RECEIVED.

THE EXPANSION SHALL, AFTER DUE CONSIDERATION OF ALL PERTINENT INFORMATION AND UPON APPROVAL BY THE COMMISSIONER, BECOME EFFECTIVE AS OF THE DATE PRESCRIBED IN THE NOTICE THEREOF.

3. UNITIZED SUBSTANCES AND RIGHTS: ALL OIL AND GAS IN OR THAT MAY BE PRODUCED FROM THE UNITIZED FORMATION UNDERLYING THE LANDS SUBJECT TO THIS AGREEMENT, TOGETHER WITH THE RIGHT TO USE THE SURFACE OF SAID LANDS FOR THE DEVELOPMENT AND OPERATION OF THE UNITIZED FORMATION ARE UNITIZED UNDER THE TERMS OF THIS AGREEMENT. NOTHING HEREIN SHALL BE CONSTRUED TO UNITIZE, POOL, OR IN ANY WAY AFFECT THE OIL, GAS, AND OTHER MINERALS CONTAINED IN OR THAT MAY BE PRODUCED FROM ANY FORMATION OTHER THAN THE PERMIAN GRAYBURG FORMATION, AS ABOVE DESCRIBED.

4. UNIT OPERATOR: SUNSET INTERNATIONAL PETROLEUM CORPORATION, BEVERLY HILLS, CALIFORNIA IS HEREBY DESIGNATED AS UNIT OPERATOR AND BY SIGNING THIS INSTRUMENT AS UNIT OPERATOR AGREES AND CONSENTS TO ACCEPT THE DUTIES AND OBLIGATIONS OF UNIT OPERATOR FOR THE OPERATION AND DEVELOPMENT OF THE UNITIZED FORMATION FOR THE 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.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: UNIT OPERATOR SHALL HAVE THE RIGHT TO RESIGN AT ANY TIME, BUT SUCH RESIGNATION SHALL NOT BECOME EFFECTIVE SO AS TO RELEASE UNIT OPERATOR FROM THE DUTIES AND OBLIGATIONS OF UNIT OPERATOR AND TERMINATE UNIT OPERATOR'S RIGHTS AS SUCH FOR A PERIOD OF SIX (6) MONTHS AFTER NOTICE OF INTENTION TO RESIGN HAS BEEN SERVED BY UNIT OPERATOR ON ALL WORKING INTEREST OWNERS AND THE COMMISSIONER, AND UNTIL ALL WELLS THEN SUBJECT HERETO ARE PLACED IN A SATISFACTORY CONDITION FOR SUSPENSION OR ABANDONMENT, UNLESS A NEW UNIT OPERATOR SHALL HAVE TAKEN OVER AND ASSUMED THE DUTIES AND OBLIGATIONS OF UNIT OPERATOR PRIOR TO THE EXPIRATION OF SAID PERIOD.

THE RESIGNATION OF UNIT OPERATOR SHALL NOT RELEASE UNIT OPERATOR FROM ANY LIABILITY FOR ANY DEFAULT BY IT HEREUNDER OCCURRING PRIOR TO THE EFFECTIVE DATE OF ITS RESIGNATION.

THE UNIT OPERATOR MAY BE SUBJECT TO REMOVAL BY EIGHTY-FIVE PER CENT (85%) OF THE COMMITTED WORKING INTERESTS ON THE BASIS OF UNIT PARTICIPATION, IN EFFECT AT THE TIME, EXCLUSIVE OF THE UNIT OPERATOR. SUCH REMOVAL SHALL BE EFFECTIVE UPON NOTICE THEREOF TO THE COMMISSIONER.

IN ALL SUCH INSTANCES OF RESIGNATION OR REMOVAL, UNTIL A SUCCESSOR UNIT OPERATOR IS SELECTED AND APPROVED AS HEREINAFTER PROVIDED, THE WORKING INTEREST OWNERS SHALL BE JOINTLY RESPONSIBLE FOR THE PERFORMANCE OF DUTIES OF THE UNIT OPERATOR AND SHALL, NOT LATER THAN THIRTY (30) DAYS BEFORE SUCH RESIGNATION OR REMOVAL BECOMES EFFECTIVE, APPOINT A UNIT MANAGER 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, APPURTENANCES, AND ANY OTHER ASSETS, USED IN CONDUCTING THE UNIT OPERATIONS AND OWNED BY THE WORKING INTEREST OWNERS TO THE NEW DULY QUALIFIED SUCCESSOR UNIT OPERATOR OR TO THE UNIT MANAGER 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 WORKING INTEREST OWNERS SHALL SELECT A SUCCESSOR UNIT OPERATOR BY A MAJORITY OF THE WORKING INTERESTS ON THE BASIS OF UNIT PARTICIPATION, PROVIDED NO UNIT OPERATOR WHO HAS BEEN REMOVED MAY VOTE FOR SELF SUCCESSION. 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 OR UNIT MANAGER IS SELECTED AND QUALIFIED AS HEREIN PROVIDED, THE COMMISSIONER, AT HIS 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, APPORTIONED AMONG AND BORNE BY THE WORKING INTEREST OWNERS IN ACCORDANCE WITH THE AGREEMENT OR AGREEMENTS ENTERED INTO (SEPARATELY OR COLLECTIVELY) BY AND BETWEEN THE WORKING INTEREST OWNERS. SUCH UNIT OPERATING AGREEMENT SHALL ALSO PROVIDE THE MANNER IN WHICH THE WORKING INTEREST OWNERS SHALL BE ENTITLED TO RECEIVE THEIR RESPECTIVE PROPORTIONATE AND ALLOCATED SHARE OF THE BENEFITS ACCRUING HERETO IN CONFORMITY WITH THEIR UNDERLYING OPERATING AGREEMENTS, LEASES, OR OTHER INDEPENDENT CONTRACTS AND SUCH OTHER RIGHTS AND OBLIGATIONS AS BETWEEN UNIT OPERATOR AND THE WORKING INTEREST OWNERS AS MAY BE AGREED UPON BY THE UNIT OPERATOR AND THE WORKING INTEREST OWNERS; HOWEVER, NO SUCH UNIT OPERATING AGREEMENT SHALL BE DEEMED EITHER TO MODIFY ANY OF THE TERMS AND CONDITIONS OF THIS UNIT AGREEMENT OR TO RELIEVE THE UNIT OPERATOR OF ANY RIGHT OR OBLIGATION ESTABLISHED UNDER THIS UNIT AGREEMENT, AND IN CASE OF ANY INCONSISTENCY OR CONFLICT BETWEEN THE UNIT AGREEMENT AND THE UNIT OPERATING AGREEMENT, THIS UNIT AGREEMENT SHALL PREVAIL. TWO TRUE COPIES OF ANY UNIT OPERATING AGREEMENT EXECUTED PURSUANT TO THIS SECTION SHALL BE FILED WITH THE COMMISSIONER PRIOR TO APPROVAL OF THIS AGREEMENT.

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. PLAN OF OPERATIONS: IT IS RECOGNIZED AND AGREED, BY THE PARTIES HERETO THAT ALL OF THE LAND SUBJECT TO THIS AGREEMENT IS REASONABLY PROVED TO BE PRODUCTIVE OF UNITIZED SUBSTANCES IN PAYING QUANTITIES AND THAT THE OBJECT AND PURPOSE OF THIS AGREEMENT IS TO FORMULATE AND PUT INTO EFFECT A SECONDARY RECOVERY PROJECT IN ORDER TO EFFECT THE GREATEST RECOVERY OF UNITIZED SUBSTANCES, PREVENT WASTE, AND CONSERVE NATURAL RESOURCES. THE PARTIES HERETO AGREE THAT THE UNIT OPERATOR MAY, SUBJECT TO THE CONSENT AND APPROVAL OF A PLAN OF OPERATION BY THE WORKING INTEREST OWNERS AND THE COMMISSIONER, INJECT INTO THE UNITIZED FORMATION, THROUGH ANY WELL OR WELLS COMPLETED THEREIN, BRINE, WATER, AIR, GAS, OIL, AND ANY ONE OR MORE OTHER SUBSTANCES WHETHER PRODUCED FROM THE UNIT AREA OR NOT, AND THAT THE LOCATION OF INPUT WELLS AND THE RATES OF INJECTION THEREIN AND THE RATE OF PRODUCTION SHALL BE GOVERNED BY STANDARDS OF GOOD GEOLOGIC AND PETROLEUM ENGINEERING PRACTICES AND CONSERVATION METHODS. SUBJECT TO THE LIKE APPROVAL, THE PLAN OF OPERATIONS MAY BE REVISED AS CONDITIONS MAY WARRANT. THE INITIAL PLAN OF OPERATION SHALL BE FILED WITH THE COMMISSIONER CONCURRENTLY WITH THE FILING OF THIS UNIT AGREEMENT FOR FINAL APPROVAL. SAID INITIAL PLAN OF OPERATION AND ALL REVISIONS THEREOF SHALL BE AS COMPLETE AND ADEQUATE AS THE COMMISSIONER MAY DETERMINE TO BE NECESSARY FOR TIMELY OPERATION CONSISTENT HERewith. REASONABLE DILIGENCE SHALL BE EXERCISED IN COMPLYING WITH THE OBLIGATIONS OF THE APPROVED PLAN OF OPERATION.

10. TRACT PARTICIPATION: TRACT PARTICIPATION OF EACH TRACT IS SHOWN ON EXHIBIT "B" BASED UPON A PARTICIPATION FACTOR DEFINED HEREINAFTER BY FORMULA ON 70% ULTIMATE RECOVERY OF 535,000 BBL. (DEFINED IN SECTION 1) AND 30% CURRENT RATE OF PRODUCTION OF 10,370 BBL. (DEFINED IN SECTION 1).

THE TRACT PARTICIPATION FACTOR SHOWN IN EXHIBIT "B" IS DETERMINED IN ACCORDANCE WITH THE FOLLOWING FORMULA:

$$\text{TRACT PARTICIPATION} = \frac{\text{TRACT ULTIMATE RECOVERY}}{\text{TOTAL ULTIMATE RECOVERY}} \times (70\%) + \frac{\text{TRACT CURRENT PRODUCTION}}{\text{TOTAL CURRENT PRODUCTION}} \times (30\%)$$

IF THE UNIT AREA IS ENLARGED OR REDUCED, THE REVISED TRACT PARTICIPATIONS OF THE TRACTS REMAINING IN THE UNIT AREA AND WHICH WERE WITHIN THE UNIT AREA PRIOR TO THE ENLARGEMENT OR REDUCTION SHALL REMAIN IN THE SAME RATIO ONE TO ANOTHER.

11. TRACTS QUALIFIED FOR UNIT PARTICIPATION: ON AND AFTER THE EFFECTIVE DATE HEREOF AND UNTIL THE ENLARGEMENT OR REDUCTION THEREOF, THE UNIT AREA SHALL BE COMPOSED OF THE TRACTS LISTED IN EXHIBIT "B" THAT CORNER OR HAVE A COMMON BOUNDARY (TRACTS SEPARATED ONLY BY A PUBLIC HIGHWAY OR RAILROAD RIGHT OF WAY SHALL BE CONSIDERED TO HAVE A COMMON BOUNDARY), AND THAT OTHERWISE QUALIFY AS FOLLOWS:

- (A) EACH TRACT AS TO WHICH WORKING INTEREST OWNERS OWNING ONE HUNDRED PER CENT (100%) OF THE WORKING INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT AND THE UNIT OPERATING AGREEMENT AND AS TO WHICH ROYALTY OWNERS OWNING ONE HUNDRED PERCENT (100%) OF THE ROYALTY INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT; AND
- (B) EACH TRACT AS TO WHICH WORKING INTEREST OWNERS OWNING NOT LESS THAN NINETY-FIVE PER CENT (95%) OF THE WORKING INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT AND THE UNIT OPERATING AGREEMENT AND AS TO WHICH ROYALTY OWNERS OWNING NOT LESS THAN SEVENTY-FIVE PER CENT (75%) OF THE ROYALTY INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT, AND IN WHICH THE WORKING INTEREST OWNERS IN SAID TRACT WHO HAVE SIGNED OR RATIFIED THIS AGREEMENT AND UNIT OPERATING AGREEMENT HAVE AGREED TO INDEMNIFY AND HOLD HARMLESS ALL OTHER PARTIES HERETO, IN A MANNER SATISFACTORY TO THE WORKING INTEREST OWNERS QUALIFIED UNDER (A), AGAINST ANY OR ALL CLAIMS AND DEMANDS THAT MAY BE MADE BY THE NONJOINING OWNERS OF WORKING OR ROYALTY INTERESTS ON ACCOUNT OF THE INCLUSION OF SUCH TRACT IN THE UNIT AREA AND THE OPERATION OF THE UNIT AREA ON THE BASIS HEREIN PROVIDED, AND AS TO WHICH EIGHTY-FIVE PER CENT (85%) OF THE WORKING INTEREST OWNERS QUALIFIED UNDER (A), EXCLUSIVE OF THE WORKING INTEREST OWNER SUBMITTING SUCH TRACT, HAVE APPROVED THE INCLUSION OF SUCH TRACT IN THE UNIT AREA.

IF, ON THE EFFECTIVE DATE OF THIS AGREEMENT, THERE IS ANY TRACT OR TRACTS WHICH HAVE NOT BEEN EFFECTIVELY COMMITTED TO OR MADE SUBJECT TO THIS AGREEMENT BY QUALIFYING AS ABOVE PROVIDED, THEN SUCH TRACT OR TRACTS SHALL NOT BE ENTITLED TO PARTICIPATE HEREUNDER. UNIT OPERATOR SHALL, WHEN SUBMITTING THIS AGREEMENT FOR FINAL APPROVAL BY THE COMMISSIONER, FILE THEREWITH A SCHEDULE OF THOSE TRACTS WHICH HAVE BEEN COMMITTED AND MADE SUBJECT TO THIS AGREEMENT AND ARE ENTITLED TO PARTICIPATE IN THE PRODUCTION FROM THE UNIT AREA HEREUNDER. SAID SCHEDULE SHALL SET FORTH OPPOSITE EACH SUCH COMMITTED TRACT, THE LEASE NUMBER, ASSIGNMENT NUMBER, THE OWNER OF RECORD AND PERCENTAGE PARTICIPATION OF SUCH TRACT WHICH SHALL BE COMPUTED ACCORDING TO THE PARTICIPATION FORMULA SET OUT ABOVE. THIS SCHEDULE SHALL BECOME REVISED EXHIBIT "B" AND APPROVAL THEREOF BY THE COMMISSIONER, SHALL BECOME A PART OF THIS AGREEMENT AND SHALL GOVERN THE ALLOCATION OF PRODUCTION OF UNITIZED SUBSTANCES UNTIL A NEW SCHEDULE IS FILED AND APPROVED BY THE COMMISSIONER.

12. ALLOCATION OF UNITIZED SUBSTANCES: ALL UNITIZED SUBSTANCES PRODUCED AND SAVED (LESS, SAVE AND EXCEPT ANY PART OF SUCH UNITIZED SUBSTANCES USED IN CONFORMITY WITH GOOD OPERATING PRACTICES WITHIN THE UNIT AREA FOR DRILLING, OPERATING, CAMP, AND OTHER PRODUCTION OR DEVELOPMENT PURPOSES AND FOR PRESSURE MAINTENANCE OR UN-AVOIDABLE LOSS) SHALL BE APPORTIONED AMONG AND ALLOCATED TO THE SEVERAL TRACTS WITHIN THE UNIT AREA IN ACCORDANCE WITH THE RESPECTIVE TRACT PARTICIPATION EFFECTIVE HEREUNDER DURING THE RESPECTIVE PERIODS SUCH UNITIZED SUBSTANCES WERE PRODUCED, AS SET FORTH IN EXHIBIT "B". THE AMOUNT OF UNITIZED SUBSTANCES SO ALLOCATED TO EACH TRACT, AND ONLY THAT AMOUNT, REGARDLESS OF WHETHER IT BE MORE OR LESS THAN THE AMOUNT OF THE ACTUAL PRODUCTION OF UNITIZED SUBSTANCES FROM A WELL OR WELLS, IF ANY, ON SUCH TRACT SHALL, FOR ALL INTENTS, USES, AND PURPOSES, BE DEEMED TO HAVE BEEN PRODUCED FROM SUCH TRACT.

THE UNITIZED SUBSTANCES ALLOCATED TO EACH TRACT SHALL BE DISTRIBUTED AMONG, OR ACCOUNTED FOR TO THE PARTIES EXECUTING, CONSENTING TO, OR RATIFYING THIS AGREEMENT ENTITLED TO SHARE IN THE PRODUCTION FROM SUCH TRACT IN THE SAME MANNER, IN THE

SAME PROPORTIONS, AND UPON THE SAME CONDITIONS AS THEY WOULD HAVE PARTICIPATED AN SHARED IN THE PRODUCTION FROM SUCH TRACTS, OR IN THE PROCEEDS THEREOF, HAD THIS AGREEMENT NOT BEEN ENTERED INTO, AND WITH THE SAME LEGAL FORCE AND EFFECT.

NOTHING HEREIN CONTAINED SHALL BE CONSTRUED AS RETROACTIVELY AFFECTING THE OWNERSHIP OF, OR AS REQUIRING ANY RETROACTIVE ADJUSTMENT FOR, PRODUCTION OF OIL OR GAS OBTAINED PRIOR TO THE EFFECTIVE DATE OF THIS AGREEMENT, OR PRIOR TO THE EFFECTIVE DATE OF THE JOINDER OF ANY TRACT, OR THE COMMITMENT OF ANY INTEREST HERETO.

NO TRACT COMMITTED TO THIS AGREEMENT AND QUALIFIED FOR PARTICIPATION AS ABOVE PROVIDED SHALL BE SUBSEQUENTLY EXCLUDED FROM PARTICIPATION HEREUNDER ON ACCOUNT OF THE DEPLETION OF UNITIZED SUBSTANCES.

IF ANY WORKING INTEREST OR ROYALTY INTEREST IN ANY TRACT IS OR BECOMES DIVIDED AND OWNED BY SEVERALTY AS TO DIFFERENT PARTS OF THE TRACT, THE PERCENTAGE PARTICIPATION ATTRIBUTABLE TO SUCH INTEREST, IN THE ABSENCE OF RECORDABLE INSTRUMENT EXECUTED BY THE OWNERS OF THE DIVIDED INTEREST AND FURNISHED TO THE UNIT OPERATOR PROVIDING FOR A DIFFERENT DIVISION, SHALL BE DIVIDED AMONG THE SEPARATE OWNERS IN PROPORTION TO THE SURFACE ACRES OF THEIR RESPECTIVE PARTS OF THE TRACTS.

THE UNITIZED SUBSTANCES ALLOCATED TO EACH TRACT SHALL BE DELIVERED IN KIND TO THE RESPECTIVE PARTIES ENTITLED THERETO BY VIRTUE OF THE OWNERSHIP OF OIL AND GAS RIGHTS THEREIN OR BY PURCHASE FROM SUCH OWNERS. EACH WORKING INTEREST OWNER AND THE PARTIES ENTITLED THERETO SHALL HAVE THE CONTINUING RIGHT TO RECEIVE SUCH PRODUCTION IN KIND AT A COMMON POINT WITHIN THE UNIT AREA AND TO SELL OR DISPOSE OF THE SAME AS IT SEES FIT. SUCH PARTY SHALL HAVE THE RIGHT TO CONSTRUCT, MAINTAIN, AND OPERATE WITHIN THE UNIT AREA ALL NECESSARY FACILITIES FOR THAT PURPOSE, PROVIDED THE SAME ARE SO CONSTRUCTED, MAINTAINED, AND OPERATED NOT TO INTERFERE WITH OPERATIONS CARRIED ON PURSUANT HERETO. SUBJECT TO SECTION 14 HEREOF, ROYALTY SETTLEMENT, ANY EXTRA EXPENDITURES INCURRED BY UNIT OPERATOR BY REASON OF DELIVERY IN KIND OF ANY PORTION OF THE UNITIZED SUBSTANCES SHALL BE BORNE BY THE PARTY RECEIVING THE SAME IN KIND. IN THE EVENT ANY PARTY HERETO SHALL FAIL TO TAKE OR OTHERWISE ADEQUATELY DISPOSE OF ITS PROPORTIONATE SHARE OF THE UNITIZED SUBSTANCES FROM THE UNIT AREA CURRENTLY AS AND WHEN PRODUCED, THEN SO LONG AND ONLY SO LONG, AS SUCH CONDITIONS CONTINUE, UNIT OPERATOR, FOR THE ACCOUNT AND AT THE EXPENSE OF SUCH PARTY IN ORDER TO AVOID CURTAILING THE OPERATION OF THE UNIT AREA, MAY SELL OR ITSELF PURCHASE SUCH PRODUCTION ON A DAY-TO-DAY BASIS AT NOT LESS THAN THE PREVAILING MARKET PRICE IN THE AREA FOR LIKE PRODUCTION, AND THE ACCOUNT OF SUCH PARTY SHALL BE CHARGED THERewith AS HAVING RECEIVED THE SAME. THE PROCEEDS, IF ANY, OF THE UNITIZED SUBSTANCES SO DISPOSED OF BY UNIT OPERATOR, SHALL BE PAID TO THE PARTY ENTITLED THERETO; NOTWITHSTANDING THE FOREGOING UNIT OPERATOR SHALL NOT MAKE A SALE INTO INTERSTATE COMMERCE OF ANY OTHER PARTY'S SHARE OF GAS PRODUCTION WITHOUT FIRST GIVING SUCH OTHER PARTY SIXTY (60) DAYS' NOTICE OF SUCH INTENDED SALE.

ANY PARTY RECEIVING IN KIND OR SEPARATELY DISPOSING OF ALL OR ANY PART OF THE UNITIZED SUBSTANCES ALLOCATED TO ANY TRACT, OR RECEIVING THE PROCEEDS THEREFROM IF THE SAME IS SOLD OR PURCHASED BY UNIT OPERATOR, SHALL BE RESPONSIBLE FOR THE PAYMENT OF ALL ROYALTIES, OVERRIDING ROYALTIES, OIL PAYMENTS, NET PROFIT CONTRACTS, AND ALL PAYMENTS OUT OF OR BURDENS ON THE LEASE OR LEASES AND TRACTS CONTRIBUTED BY IT AND RECEIVED INTO THE UNIT AREA AND EACH SUCH PARTY SHALL HOLD EACH OTHER PARTY HERETO HARMLESS AGAINST ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION FOR SUCH ROYALTIES, OVERRIDING ROYALTIES, OIL PAYMENTS, NET PROFIT CONTRACTS, AND OTHER PAYMENTS OUT OF OR BURDENS ON THE LEASE OR LEASES AND TRACTS CONTRIBUTED BY IT TO THE UNIT AREA.

IF, AFTER THE EFFECTIVE DATE OF THIS AGREEMENT, THERE IS ANY TRACT OR TRACTS THAT ARE SUBSEQUENTLY COMMITTED HERETO, AS ABOVE PROVIDED IN SECTION 3, UNIT AREA AND PARTICIPATION, OR ANY TRACT OR TRACTS WITHIN THE UNIT AREA NOT EFFECTIVELY COMMITTED HERETO AS OF THE EFFECTIVE DATE HEREOF BUT WHICH ARE SUBSEQUENTLY COMMITTED HERETO UNDER THE PROVISIONS OF SECTION 29, NONJOINDER AND SUBSEQUENT JOINDER, OR IF ANY TRACT IS EXCLUDED FROM THE UNIT AREA AS PROVIDED FOR IN SECTION 28, LOSS OF TITLE, THE SCHEDULE OF PARTICIPATION AS SHOWN IN EXHIBIT "B" SHALL BE REVISED BY THE WORKING INTEREST OWNERS TO SHOW THE NEW PERCENTAGE PARTICIPATION OF ALL OF THE THEN EFFECTIVELY COMMITTED TRACTS AND THE REVISED EXHIBIT "B" UPON APPROVAL BY THE COMMISSIONER UNDER SECTION 28, LOSS OF TITLE, AND SECTION 29, NONJOINDER AND SUBSEQUENT JOINDER, AND UPON APPLICATION BY THE COMMISSIONER UNDER SECTION 2, UNIT AREA AND PARTICIPATION, SHALL GOVERN THE ALLOCATION OF UNITIZED SUBSTANCES FROM AND AFTER THE EFFECTIVE DATE THEREOF UNTIL A NEW SCHEDULE IS SO APPROVED.

13. ROYALTY SETTLEMENT: THE STATE OF NEW MEXICO AND ALL ROYALTY OWNERS WHO, UNDER EXISTING CONTRACT, 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 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, DIVISION ORDERS, LAWS, AND REGULATIONS, ON OR BEFORE THE LAST DAY OF EACH MONTH FOR UNITIZED SUBSTANCES PRODUCED DURING THE PRECEDING CALENDAR MONTH; PROVIDED, HOWEVER, THAT NOTHING HEREIN CONTAINED SHALL OPERATE TO RELIEVE THE LESSEES OF ANY LAND FROM THEIR RESPECTIVE LEASE OBLIGATIONS FOR THE PAYMENT OF ANY ROYALTIES DUE UNDER THEIR LEASES, EXCEPT THAT SUCH ROYALTIES SHALL BE COMPUTED IN ACCORDANCE WITH THE TERMS OF THIS UNIT AGREEMENT.

IF GAS OBTAINED FROM LANDS OR FORMATIONS NOT SUBJECT TO THIS AGREEMENT IS INTRODUCED INTO THE UNITIZED LAND FOR USE IN PRESSURE MAINTENANCE, STIMULATION OF PRODUCTION, OR INCREASING ULTIMATE RECOVERY, WHICH SHALL BE IN CONFORMITY WITH A PLAN FIRST APPROVED BY THE COMMISSIONER, A LIKE AMOUNT OF GAS LESS APPROPRIATE DEDUCTIONS FOR LOSS FROM ANY CAUSE MAY BE WITHDRAWN FROM THE FORMATION INTO WHICH THE GAS WAS INTRODUCED, ROYALTY FREE AS TO DRY GAS, BUT NOT AS TO THE PRODUCTS EXTRACTED THEREFROM; PROVIDED THAT SUCH WITHDRAWAL SHALL BE PURSUANT TO SUCH CONDITIONS AND FORMULAS AS MAY BE PRESCRIBED OR APPROVED BY THE COMMISSIONER AS CONFORMING TO GOOD PETROLEUM ENGINEERING PRACTICE; AND, PROVIDED FURTHER THAT SUCH RIGHT OF WITHDRAWAL SHALL TERMINATE ON THE TERMINATION OF THIS AGREEMENT.

IF LIQUEFIED PETROLEUM GASES OBTAINED FROM LANDS OR FORMATIONS NOT SUBJECT TO THIS AGREEMENT BE INJECTED INTO THE UNITIZED LAND FOR THE PURPOSE OF INCREASING ULTIMATE RECOVERY, WHICH SHALL BE IN CONFORMANCE WITH A PLAN FIRST APPROVED BY THE COMMISSIONER, PART OR ALL OF SUCH LIQUEFIED PETROLEUM GASES, MAY BE WITHDRAWN ROYALTY FREE PURSUANT TO SUCH CONDITIONS AND FORMULAS AS MAY BE PRESCRIBED OR APPROVED BY THE COMMISSIONER.

ALL ROYALTIES DUE THE STATE OF NEW MEXICO AND THE OTHER ROYALTY OWNERS HEREUNDER SHALL BE COMPUTED AND PAID ON THE BASIS OF ALL UNITIZED SUBSTANCES ALLOCATED TO THE RESPECTIVE TRACT OR TRACTS COMMITTED HERETO, IN LIEU OF ACTUAL PRODUCTION FROM SUCH TRACT OR TRACTS.

EACH ROYALTY OWNER (OTHER THAN THE STATE OF NEW MEXICO) THAT EXECUTES THIS AGREEMENT, REPRESENTS AND WARRANTS THAT IT IS THE OWNER OF A ROYALTY INTEREST IN A TRACT OR TRACTS WITHIN THE UNIT AREA AS ITS INTEREST APPEARS IN EXHIBIT "B", ATTACHED HERETO. IF ANY ROYALTY INTEREST IN A TRACT OR TRACTS SHOULD BE LOST BY TITLE FAILURE IN WHOLE OR IN PART, DURING THE TERM OF THIS AGREEMENT, THEN THE ROYALTY INTEREST OF THE PARTY REPRESENTING HIMSELF TO BE THE OWNER THEREOF SHALL BE REDUCED PROPORTIONATELY AND THE INTEREST OF ALL PARTIES SHALL BE ADJUSTED ACCORDINGLY.

14. OIL IN LEASE TANKS ON EFFECTIVE DATE: UNIT OPERATOR SHALL MAKE PROPER AND TIMELY GAUGE OF ALL LEASE AND OTHER TANKS WITHIN THE UNIT AREA IN ORDER TO ASCERTAIN THE AMOUNT OF MERCHANTABLE OIL ABOVE THE PIPE LINE CONNECTION, IN SUCH TANKS AS OF 7:00 O'CLOCK A.M. ON THE EFFECTIVE DATE HEREOF. ALL SUCH OIL WHICH HAS BEEN PRODUCED LEGALLY SHALL BE AND REMAIN THE PROPERTY OF THE WORKING INTEREST OWNERS ENTITLED THERETO THE SAME AS IF THE UNIT HAD NOT BEEN FORMED; AND SUCH WORKING INTEREST OWNERS SHALL PROMPTLY REMOVE SAID OIL FROM THE UNIT AREA. ANY SUCH OIL NOT SO REMOVED SHALL BE SOLD BY UNIT OPERATOR FOR THE ACCOUNT OF SUCH WORKING INTEREST OWNERS, SUBJECT TO THE PAYMENT OF ALL ROYALTY TO ROYALTY OWNERS UNDER THE TERMS AND PROVISIONS OF THE APPLICABLE LEASE OR LEASES AND OTHER CONTRACTS.

15. REPORTS: UNIT OPERATOR SHALL FURNISH THE COMMISSIONER, MONTHLY, INJECTION AND PRODUCTION REPORTS FOR EACH WELL IN THE UNIT AREA, AS WELL AS PERIODICAL REPORTS OF THE DEVELOPMENT AND OPERATION OF THE UNIT AREA.

16. RENTAL SETTLEMENT: RENTALS OR MINIMUM ROYALTIES DUE ON LEASES COMMITTED HERETO SHALL BE PAID BY WORKING INTEREST OWNERS RESPONSIBLE THEREFOR UNDER EXISTING CONTRACTS, LAWS, AND REGULATIONS PROVIDED THAT NOTHING HEREIN CONTAINED SHALL OPERATE TO RELIEVE THE LESSEES OF ANY LAND FROM THEIR RESPECTIVE LEASE OBLIGATIONS FOR THE PAYMENT OF ANY RENTAL OR MINIMUM ROYALTY IN LIEU THEREOF DUE UNDER THEIR LEASES. RENTAL FOR LANDS OF THE STATE OF NEW MEXICO, SUBJECT TO THIS AGREEMENT, SHALL BE PAID AT THE RATE SPECIFIED IN THE RESPECTIVE LEASES FROM THE STATE OF NEW MEXICO.

17. 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.

18. DRAINAGE: THE UNIT OPERATOR SHALL TAKE APPROPRIATE AND ADEQUATE MEASURES TO PREVENT DRAINAGE OF UNITIZED SUBSTANCES FROM UNITIZED FORMATION BY WELLS ON LAND NOT SUBJECT TO THIS AGREEMENT.

19. LEASES AND CONTRACTS CONFORMED AND EXTENDED: THE TERMS, CONDITIONS, AND PROVISIONS OF ALL LEASES, SUBLEASES, UNIT AGREEMENTS 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 COMMISSIONER SHALL, AND BY HIS APPROVAL HEREOF, OR BY THE APPROVAL HEREOF BY HIS DULY AUTHORIZED REPRESENTATIVE, DOES HEREBY ESTABLISH, ALTER, CHANGE, OR REVOKE THE DRILLING, PRODUCING, RENTAL, MINIMUM ROYALTY, OR ROYALTY REQUIREMENTS OF STATE LEASES COMMITTED HERETO AND THE REGULATIONS IN RESPECT THERETO TO CONFORM SAID REQUIREMENTS TO THE PROVISIONS OF THIS AGREEMENT. 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, PRODUCING, OR SECONDARY RECOVERY OPERATIONS PERFORMED HEREUNDER UPON ANY TRACT OF UNITIZED LAND WILL BE ACCEPTED AND DEEMED TO BE PERFORMED UPON AND FOR THE BENEFIT OF EACH AND EVERY TRACT OF UNITIZED LAND, AND NO LEASE SHALL BE DEEMED TO EXPIRE BY REASON OF FAILURE TO DRILL OR PRODUCE WELLS SITUATED ON LAND THEREIN EMBRACED.
- (C) SUSPENSION OF DRILLING OR PRODUCING OPERATIONS ON ALL UNITIZED LANDS PURSUANT TO DIRECTION OR CONSENT OF THE COMMISSIONER, OR HIS DULY AUTHORIZED REPRESENTATIVE, SHALL BE DEEMED TO CONSTITUTE SUCH SUSPENSION PURSUANT TO SUCH DIRECTION OR CONSENT AS TO EACH AND EVERY TRACT OF UNITIZED LANDS.
- (D) EACH LEASE, SUBLEASE, UNIT AGREEMENT, OR CONTRACT RELATING TO THE EXPLORATION, DRILLING, DEVELOPMENT, OR OPERATION FOR OIL AND GAS 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.
- (E) TERMINATION OF THIS AGREEMENT SHALL NOT AFFECT ANY LEASE WHICH, PURSUANT TO THE TERMS THEREOF OR ANY APPLICABLE LAWS, SHALL CONTINUE IN FORCE AND EFFECT THEREAFTER.
- (F) 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.
- (G) 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 LAND COMMITTED AND AS TO THE LAND NOT COMMITTED AND THE TERMS OF SUCH LEASES SHALL APPLY SEPARATELY AS TO SUCH SEGREGATED PORTIONS COMMENCING AS OF THE EFFECTIVE DATE HEREOF. PROVIDED, HOWEVER, THAT NOTWITHSTANDING ANY OF THE PROVISIONS OF THIS AGREEMENT TO THE CONTRARY, SUCH LEASE SHALL CONTINUE IN FULL FORCE AND EFFECT BEYOND THE TERM PROVIDED THEREIN AS TO ALL LANDS EMBRACED IN SUCH LEASE IF OIL OR GAS IS, OR HAS HERETOFORE BEEN, DISCOVERED IN PAYING QUANTITIES ON SOME PART OF THE LANDS EMBRACED IN SUCH LEASE COMMITTED TO THIS AGREEMENT, OR, SO LONG AS A PORTION OF THE UNITIZED SUBSTANCES PRODUCED FROM THE UNIT AREA IS, UNDER THE TERMS OF THIS AGREEMENT, ALLOCATED TO THE PORTION OF THE LANDS COVERED BY SUCH LEASE COMMITTED TO THIS AGREEMENT, OR, AT ANY TIME DURING THE TERM HEREOF, AS TO ANY LEASE THAT IS THEN VALID AND SUBSISTING AND UPON WHICH THE LESSEE OR THE UNIT OPERATOR IS THEN ENGAGED IN BONA FIDE DRILLING, REWORKING, OR SECONDARY RECOVERY OPERATIONS ON

ANY PART OF THE LANDS EMBRACED IN SUCH LEASE, THEN THE SAME AS TO ALL LANDS EMBRACED THEREIN SHALL REMAIN IN FULL FORCE AND EFFECT SO LONG AS SUCH OPERATIONS ARE 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 OR GAS IN PAYING QUANTITIES IS BEING PRODUCED FROM ANY PORTION OF SAID LANDS.

20. MATHEMATICAL ERRORS: IT IS HEREBY AGREED BY ALL PARTIES TO THE AGREEMENT THAT UNIT OPERATOR SHALL BE EMPOWERED TO CORRECT ANY MATHEMATICAL ERRORS WHICH MIGHT EXIST IN THE PERTINENT EXHIBITS TO THIS AGREEMENT UPON APPROVAL OF THE COMMISSIONER.

21. 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 SUBJECT HERETO SHALL BE BINDING UPON UNIT OPERATOR UNTIL THE FIRST DAY OF THE CALENDAR MONTH AFTER UNIT OPERATOR IS FURNISHED WITH THE ORIGINAL, PHOTOSTATIC, OR CERTIFIED COPY OF THE INSTRUMENT OF TRANSFER; AND NO ASSIGNMENT OR TRANSFER OF ANY ROYALTY INTEREST SUBJECT THERETO SHALL BE BINDING UPON THE WORKING INTEREST OWNER RESPONSIBLE THEREFOR UNTIL THE FIRST DAY OF THE CALENDAR MONTH AFTER SAID WORKING INTEREST OWNER IS FURNISHED WITH THE ORIGINAL, PHOTOSTATIC, OR CERTIFIED COPY OF THE INSTRUMENT OF TRANSFER.

22. EFFECTIVE DATE AND TERM: THIS AGREEMENT SHALL BECOME BINDING UPON EACH PARTY WHO EXECUTES OR RATIFIES IT AS OF THE DATE OF EXECUTION OR RATIFICATION BY SUCH PARTY AND SHALL BECOME EFFECTIVE AS OF 7:00 O'CLOCK A.M. ON THE FIRST DAY OF THE CALENDAR MONTH NEXT FOLLOWING:

- (A) THE EXECUTION OR RATIFICATION OF THIS AGREEMENT AND THE UNIT OPERATING AGREEMENT BY WORKING INTEREST OWNERS OWNING A COMBINED UNIT PARTICIPATION OF AT LEAST EIGHTY-FIVE PER CENT (85%), AND THE EXECUTION OR RATIFICATION OF THIS AGREEMENT BY ROYALTY OWNERS OWNING A COMBINED INTEREST OF AT LEAST SEVENTY-FIVE PER CENT (75%) OF THE ROYALTY INTEREST IN THE LANDS DESCRIBED IN SECTION 3 OF THIS AGREEMENT;
- (B) THE APPROVAL OF THIS AGREEMENT BY THE COMMISSIONER AND THE COMMISSION;
- (C) THE FILING OF AT LEAST ONE COUNTERPART OF THIS AGREEMENT FOR THE RECORD IN THE RECORDS OF LEA COUNTY, NEW MEXICO, BY UNIT OPERATOR; AND PROVIDED FURTHER, THAT IF (A), (B), AND (C) ARE NOT ACCOMPLISHED ON OR BEFORE MARCH 1, 1965, THIS AGREEMENT SHALL IP SO FACTO TERMINATE ON SAID DATE (HEREINAFTER CALLED "TERMINATION DATE") AND THEREAFTER BE OF NO FURTHER FORCE OR EFFECT, UNLESS PRIOR THERETO THIS AGREEMENT HAS BEEN EXECUTED OR RATIFIED BY WORKING INTEREST OWNERS OWNING A COMBINED UNIT PARTICIPATION OF AT LEAST NINETY PER CENT (90%), AND WORKING INTEREST OWNERS OWNING A COMBINED UNIT PARTICIPATION OF AT LEAST NINETY PER CENT (90%) COMMITTED TO THIS AGREEMENT HAVE DECIDED TO EXTEND SAID TERMINATION DATE FOR A PERIOD NOT TO

EXCEED SIX (6) MONTHS. IF SAID TERMINATION DATE IS SO EXTENDED AND (A), (B), AND (C) ARE NOT ACCOMPLISHED ON OR BEFORE SAID EXTENDED TERMINATION DATE, THIS AGREEMENT SHALL IP SO FACTO TERMINATE ON SAID EXTENDED TERMINATION DATE AND THEREAFTER BE OF NO FURTHER FORCE OR EFFECT. FOR THE PURPOSE OF THIS SECTION, OWNERSHIP SHALL BE COMPUTED ON THE BASIS OF UNIT PARTICIPATION. UNIT OPERATOR SHALL, WITHIN THIRTY (30) DAYS AFTER THE EFFECTIVE DATE OF THIS AGREEMENT, FILE FOR THE RECORD IN THE OFFICE OR OFFICES WHERE A COUNTERPART OF THIS AGREEMENT IS RECORDED, A CERTIFICATE TO THE EFFECT THAT THIS AGREEMENT HAS BECOME EFFECTIVE ACCORDING TO ITS TERMS AND STATING FURTHER THE EFFECTIVE DATE.

THE TERM OF THIS AGREEMENT SHALL BE FOR AND DURING THE TIME THAT UNITIZED SUBSTANCES ARE PRODUCED IN PAYING QUANTITIES FROM THE UNIT AREA AND AS LONG THEREAFTER AS DRILLING, REWORKING, OR OTHER OPERATIONS (INCLUDING SECONDARY RECOVERY) ARE PROSECUTED THEREON WITHOUT CESSATION OF MORE THAN NINETY (90) CONSECUTIVE DAYS, UNLESS SOONER TERMINATED BY WORKING INTEREST OWNERS IN THE MANNER HEREINAFTER PROVIDED. THIS AGREEMENT MAY BE TERMINATED BY WORKING INTEREST OWNERS OF NINETY PER CENT (90%) UNIT PARTICIPATION WHENEVER SUCH WORKING INTEREST OWNERS DETERMINE THAT UNIT OPERATIONS ARE NO LONGER PROFITABLE, FEASIBLE, OR IN THE INTEREST OF CONSERVATION, WITH THE APPROVAL OF THE COMMISSION AND THE COMMISSIONER. NOTICE OF ANY SUCH APPROVAL TO BE GIVEN BY UNIT OPERATOR TO ALL PARTIES HERETO.

UPON TERMINATION OF THIS AGREEMENT, THE FURTHER DEVELOPMENT AND OPERATION OF THE UNIT AREA AS A UNIT SHALL BE ABANDONED, UNIT OPERATIONS SHALL CEASE, AND THEREAFTER THE PARTIES HERETO SHALL BE GOVERNED BY THE TERMS AND PROVISIONS OF THE LEASES AND CONTRACTS AFFECTING THE SEPARATE TRACTS JUST AS IF THE AGREEMENT HAD NEVER BEEN ENTERED INTO.

IF NOT OTHERWISE COVERED BY THE LEASES UNITIZED UNDER THIS AGREEMENT, ROYALTY OWNERS HEREBY GRANT WORKING INTEREST OWNERS A PERIOD OF THREE (3) MONTHS AFTER TERMINATION OF THIS AGREEMENT IN WHICH TO SALVAGE, SELL, DISTRIBUTE, OR OTHERWISE DISPOSE OF THE PERSONAL PROPERTY AND FACILITIES USED IN CONNECTION WITH UNIT OPERATIONS.

23. RATE OF PRODUCTION: ALL PRODUCTION AND THE DISPOSAL THEREOF SHALL BE IN CONFORMITY WITH ALLOCATIONS AND QUOTAS MADE OR FIXED BY THE COMMISSION AND IN CONFORMITY WITH ALL APPLICABLE LAWS AND LAWFUL REGULATIONS.

24. APPEARANCES: UNIT OPERATOR SHALL, AFTER NOTICE TO THE OTHER PARTIES AFFECTED, HAVE THE RIGHT TO APPEAR FOR OR ON BEHALF OF ANY AND ALL INTERESTS AFFECTED HEREBY BEFORE THE COMMISSIONER OF PUBLIC LANDS, AND THE NEW MEXICO OIL CONSERVATION COMMISSION, AND TO APPEAL FROM ORDER ISSUED UNDER THE REGULATIONS OF SAID COMMISSIONER, OR COMMISSION, OR TO APPLY FOR RELIEF FROM ANY OF SAID REGULATIONS OR IN ANY PROCEEDINGS RELATIVE TO OPERATIONS BEFORE THE SAID COMMISSIONER, OR COMMISSION, OR ANY OTHER LEGALLY CONSTITUTED AUTHORITY, PROVIDED, HOWEVER, THAT THE OTHER INTERESTED PARTY SHALL ALSO HAVE THE RIGHT, AT HIS OWN EXPENSE, TO BE HEARD IN ANY SUCH PROCEEDINGS.

25 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 OR 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 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.

26. NO WAIVER OF CERTAIN RIGHTS: NOTHING CONTAINED IN THIS AGREEMENT SHALL BE CONSTRUED AS A WAIVER BY ANY PARTY HERETO OF THE RIGHT TO ASSERT ANY LEGAL OR CONSTITUTIONAL RIGHT OR DEFENSE AS TO THE VALIDITY OR INVALIDITY OF ANY LAW OF THE STATE 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.

27. 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 ACCIDENT, 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.

28. LOSS OF TITLE: IN THE EVENT TITLE TO ANY TRACT TO UNITIZED LAND SHALL FAIL IN WHOLE OR IN PART AND THE TRUE OWNER CANNOT BE INDUCED TO JOIN THIS UNIT AGREEMENT, 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 STATE LAND OR LEASES, NO PAYMENTS OF FUNDS DUE THE STATE OF NEW MEXICO SHOULD BE WITHHELD, BUT SUCH FUNDS SHALL BE DEPOSITED AS DIRECTED BY THE COMMISSIONER OF PUBLIC LANDS OF THE STATE OF NEW MEXICO, 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. NONJOINDER AND SUBSEQUENT JOINDER: IF THE OWNER OF ANY SUBSTANTIAL INTEREST IN A TRACT WITHIN THE UNIT AREA FAILS OR REFUSES TO SUBSCRIBE OR CONSENT IN WRITING TO THIS AGREEMENT, THE WORKING INTEREST OWNER IN THAT TRACT WHO HAS EXECUTED OR RATIFIED THIS AGREEMENT MAY WITHDRAW SAID TRACT FROM THIS AGREEMENT BY WRITTEN NOTICE TO THE UNIT OPERATOR, OR SUCH TRACT MAY BE INCLUDED IN THE UNIT AREA IF THE SAME CAN BE AND IS QUALIFIED AS PROVIDED IN SECTION 11 HEREOF, TRACTS QUALIFIED FOR UNIT PARTICIPATION. SUCH WITHDRAWAL AS ABOVE PROVIDED, SHALL, WITHOUT FURTHER ACTION, ALSO OPERATE TO WITHDRAW ALL ROYALTY INTEREST IN SUCH TRACT OR TRACTS THERETOFORE COMMITTED HERETO. JOINDER IN THE UNIT AGREEMENT BY A WORKING INTEREST OWNER, AT ANY TIME, MUST BE ACCOMPANIED BY APPROPRIATE JOINDER TO THE UNIT OPERATING AGREEMENT IN ORDER FOR THE INTEREST TO BE REGARDED AS EFFECTIVELY COMMITTED TO THIS UNIT AGREEMENT.

ANY OIL OR GAS INTEREST IN THE UNITIZED FORMATION IN LANDS WITHIN THE UNIT AREA NOT COMMITTED HERETO PRIOR TO SUBMISSION OF THIS AGREEMENT TO THE COMMISSIONER FOR FINAL APPROVAL, MAY THEREAFTER BE COMMITTED HERETO UPON COMPLIANCE WITH THE APPLICABLE PROVISIONS OF SECTION 11 HEREOF, AT ANY TIME UP TO THE EFFECTIVE DATE HEREOF AND FOR A PERIOD OF SIX (6) MONTHS THEREAFTER, ON THE SAME BASIS OF PARTICIPATION AS PROVIDED FOR IN SECTION 11 BY THE OWNER OR OWNERS THEREOF SUBSCRIBING OR CONSENTING IN WRITING TO THIS AGREEMENT AND, IF THE INTEREST IS A WORKING INTEREST, BY THE OWNER OF SUCH INTEREST SUBSCRIBING ALSO TO THE UNIT OPERATING AGREEMENT.

IT IS UNDERSTOOD AND AGREED, HOWEVER, THAT AFTER SIX (6) MONTHS FROM THE EFFECTIVE DATE HEREOF, THE RIGHT OF SUBSEQUENT JOINDER AS PROVIDED IN THIS SECTION SHALL BE SUBJECT TO SUCH REQUIREMENTS OR APPROVALS AND ON SUCH BASIS AS MAY BE AGREED UPON BY NINETY PER CENT (90%) OF THE WORKING INTEREST OWNERS. SUCH JOINDER BY A ROYALTY OWNER MUST BE EVIDENCED BY HIS EXECUTION OR RATIFICATION OF THIS UNIT AGREEMENT AND MUST BE CONSENTED TO IN WRITING BY THE WORKING INTEREST OWNER RESPONSIBLE FOR THE PAYMENT OF ANY BENEFITS THAT MAY ACCRUE HEREUNDER ON BEHALF OF SUCH ROYALTY OWNER. EXCEPT AS MAY OTHERWISE HEREIN BE PROVIDED, SUBSEQUENT JOINDER TO THIS AGREEMENT SHALL BE AFFECTIVE AT 7:00 O'CLOCK A.M. AS OF THE FIRST DAY OF THE MONTH FOLLOWING THE FILING WITH THE COMMISSION AND THE COMMISSIONER OF DULY EXECUTED COUNTERPARTS OF ALL OR ANY PAPERS NECESSARY TO ESTABLISH EFFECTIVE COMMITMENT OF ANY TRACT TO THIS AGREEMENT AND APPROVED BY 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 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.

31. TAXES: EACH PARTY HERETO SHALL, FOR ITS OWN ACCOUNT, RENDER AND PAY ITS SHARE OF ANY TAXES LEVIED AGAINST OR MEASURED BY THE AMOUNT OR VALUE OF THE UNITIZED SUBSTANCES PRODUCED FROM THE UNIT AREA; PROVIDED, HOWEVER, THAT IF IT IS REQUIRED OR IF IT BE DETERMINED THAT THE UNIT OPERATOR OR THE SEVERAL WORKING INTEREST OWNERS MUST PAY OR ADVANCE SAID TAXES FOR THE ACCOUNT OF THE PARTIES HERETO, IT IS HEREBY EXPRESSLY AGREED THAT THE PARTIES SO PAYING OR ADVANCING SAID TAXES SHALL BE REIMBURSED THEREFOR BY THE PARTIES HERETO, INCLUDING ROYALTY OWNERS, WHO MAY BE RESPONSIBLE FOR THE TAXES ON THEIR RESPECTIVE ALLOCATED SHARE OF THE UNITIZED SUBSTANCES. NO SUCH TAXES SHALL BE CHARGED TO THE STATE OF NEW MEXICO OR TO ANY LESSOR WHO HAS A CONTRACT WITH HIS LESSEE WHICH REQUIRES THE LESSEE TO PAY SUCH TAXES.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE CAUSED THIS AGREEMENT TO BE EXECUTED AND HAVE SET OPPOSITE THEIR RESPECTIVE NAMES, THE DATE OF EXECUTION.

NAME

DATE SIGNED

ATTEST, IF A CORPORATION OR
WITNESS, IF AN INDIVIDUAL

SUNSET INTERNATIONAL PETROLEUM CORPORATION

ATTEST:

By _____
VICE PRESIDENT

By _____
SECRETARY

ADDRESS _____

CARPER DRILLING COMPANY, INC.

ATTEST:

By _____
TITLE

By _____
SECRETARY

ADDRESS _____

PHILLIPS PETROLEUM COMPANY

ATTEST:

By _____
TITLE

By _____
SECRETARY

ADDRESS _____

INDIVIDUAL

WITNESS:

CHARLES P. MILLER

JOINT OVER-RIDING ROYALTY INTERESTS

WITNESS:

CHARLES P. MILLER

AND _____

HIS WIFE

STATE OF _____)
COUNTY OF _____) ss

CORPORATION ACKNOWLEDGEMENT

ON THIS _____ DAY OF _____, 1964, BEFORE ME APPEARED _____, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY SWORN, DID SAY THAT HE IS THE _____ OF _____

_____, A CORPORATION, AND THAT THE SEAL AFFIXED TO SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRUMENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD OF DIRECTORS, AND SAID _____ ACKNOWLEDGED SAID INSTRUMENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS _____ DAY OF _____, 1964.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____)
COUNTY OF _____) ss

STATE OF _____)
COUNTY OF _____) ss

CORPORATION ACKNOWLEDGEMENT

ON THIS _____ DAY OF _____, 1964, BEFORE ME APPEARED _____, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY SWORN, DID SAY THAT HE IS THE _____ OF _____, A CORPORATION, AND THAT THE SEAL AFFIXED TO SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRUMENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD OF DIRECTORS, AND SAID _____ ACKNOWLEDGED SAID INSTRUMENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS _____ DAY OF _____, 1964.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____)
COUNTY OF _____) ss

STATE OF _____ }
COUNTY OF _____ } SS

CORPORATION ACKNOWLEDGEMENT

ON THIS _____ DAY OF _____, 1964, BEFORE ME APPEARED _____, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY SWORN, DID SAY THAT HE IS THE _____ OF _____, A CORPORATION, AND THAT THE SEAL AFFIXED TO SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRUMENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD OF DIRECTORS, AND SAID _____ ACKNOWLEDGED SAID INSTRUMENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS _____ DAY OF _____, 1964.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____ }
COUNTY OF _____ } SS

INDIVIDUAL ACKNOWLEDGEMENT

THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME THIS _____ DAY OF _____, 1964, BY _____.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

JOINT ACKNOWLEDGEMENT
(HUSBAND AND WIFE)

THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME THIS _____ DAY OF _____, 1964, BY _____ AND _____ HIS WIFE.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____ }
COUNTY OF _____ } SS

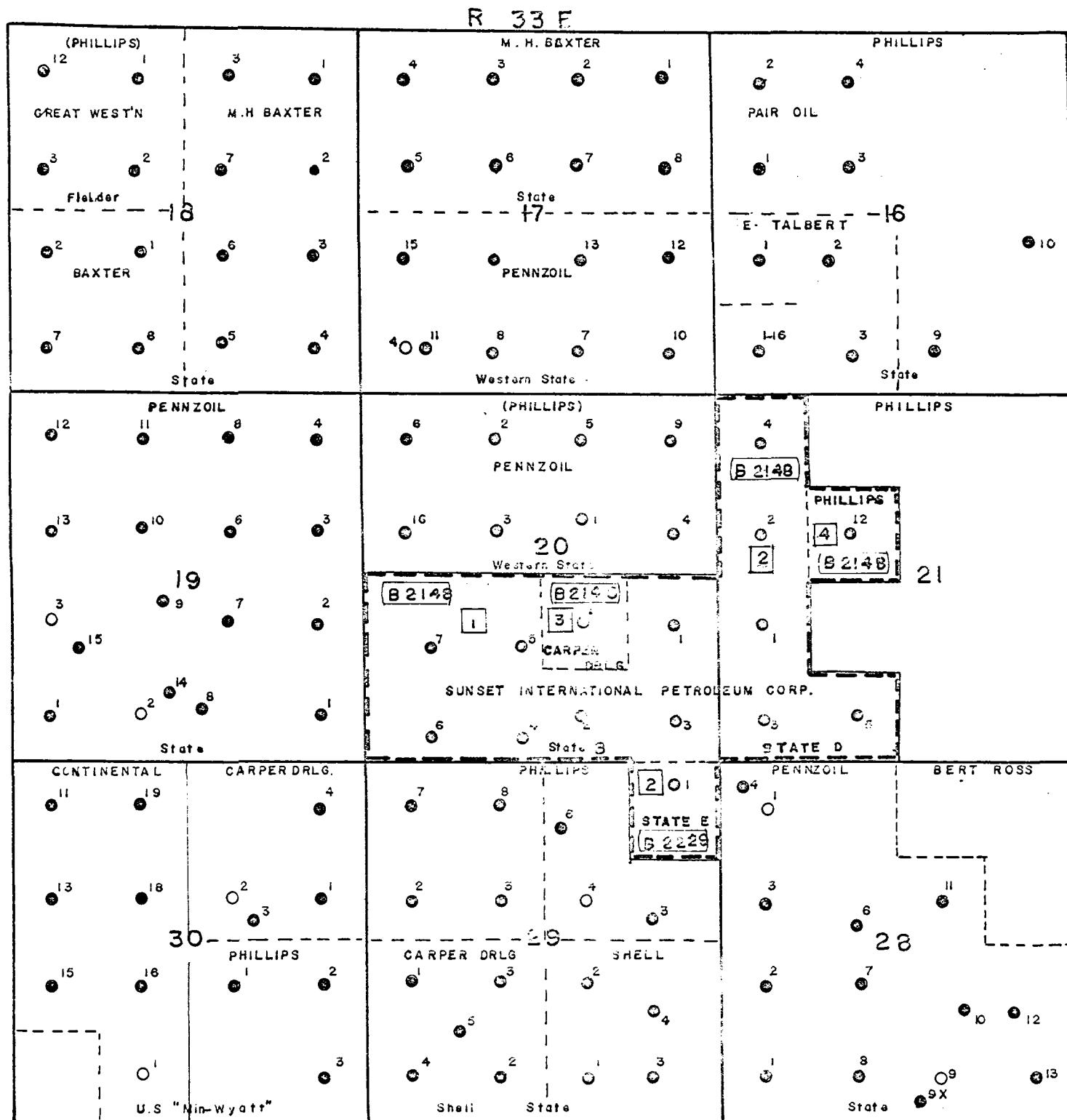


EXHIBIT "A"
MAL GRA UNIT
LEA COUNTY, NEW MEXICO
----- MAL GRA UNIT BOUNDARY
□ TRACT NUMBER
▭ NEW MEXICO LEASE NUMBER

EXHIBIT "B"
LEASEHOLD INFORMATION WITH WORKING INTEREST PARTICIPATION
MAL-GRA UNIT
MALJAMAR FIELD
LEA COUNTY, NEW MEXICO

[illegible]

EXHIBIT "C" TO UNIT AGREEMENT

MAL-GRA UNIT

MALJAMAR FIELD

LEA COUNTY, NEW MEXICO

TRACT No.	LEASE NAME	NUMBER WELLS	GROSS RESERVES 1/1/64	ULTIMATE PRIMARY OIL	CURRENT PRODUCTION LAST 6 Mos. 1963	TRACT PARTICIPATION IN UNIT 70% ULTIMATE - 30% CURRENT
1	STATE B	7	29,000 BbLS.	314,800 BbLS.	5,260 BbLS.	0.411888 0.152170
2	STATE D&E	6	15,400	157,000	3,040	0.205421 0.087946
3	PHILLIPS STATE	1	1,700	52,300	540	0.068429 0.15622
4	LEAMEX	1	4,480	10,900	1,530	0.014262 0.044262
	TOTAL	15	50,580	535,000	10,370	0.700000 0.300000

CERTIFICATE OF APPROVAL
BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO
OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION OF THE
MAL-GRA UNIT AREA, LEA COUNTY, NEW MEXICO

THERE HAS BEEN PRESENTED TO THE UNDERSIGNED COMMISSIONER OF PUBLIC LANDS OF THE STATE OF NEW MEXICO FOR EXAMINATION, AN AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE MAL-GRA UNIT AREA, LEA COUNTY, NEW MEXICO, DATED AUGUST 1, 1964, IN WHICH SUNSET INTERNATIONAL PETROLEUM CORPORATION IS DESIGNATED AS OPERATOR, AND WHICH HAS BEEN EXECUTED BY VARIOUS PARTEIS OWNING AND HOLDING OIL AND GAS LEASES EMBRACING LANDS WITHIN THE UNIT AREA AND UPON EXAMINATION OF SAID AGREEMENT, THE COMMISSIONER FINDS:

- (A) THAT SUCH AGREEMENT WILL TEND TO PROMOTE CONSERVATION OF OIL AND GAS AND THE BETTER UTILIZATION OF RESERVOIR ENERGY IN SAID FIELD;
- (B) THAT UNDER THE OPERATIONS PROPOSED, THE STATE WILL RECEIVE ITS FAIR SHARE OF THE RECOVERABLE OIL OR GAS IN PLACE UNDER ITS LAND IN THE AREA AFFECTED;
- (C) THAT THE AGREEMENT IS IN OTHER RESPECTS FOR THE BEST INTERESTS OF THE STATE;
- (D) THAT THE AGREEMENT PROVIDES FOR THE UNIT OPERATION OF THE FIELD, FOR ALLOCATION OF PRODUCTION AND SHARING OF PROCEEDS FROM THE AREA COVERED BY THE AGREEMENT IN ACCORDANCE WITH A FORMULA OF THE PARTICIPATION AS SPECIFIED IN THE AGREEMENT REGARDLESS OF THE PARTICULAR TRACT FROM WHICH PRODUCTION IS OBTAINED OR PROCEEDS ARE DERIVED AND FOR REPRESSURING OR SECONDARY RECOVERY OPERATIONS.

NOW, THEREFORE, BY VIRTUE OF THE AUTHORITY CONFERRED UPON ME BY VIRTUE OF THE LAWS OF THE STATE OF NEW MEXICO, 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 ABOVE REFERRED TO MAL-GRA UNIT AGREEMENT AS TO THE LANDS OF THE STATE OF NEW MEXICO COMMITTED HERETO, AND ALL OIL AND GAS LEASES EMBRACING LANDS OF THE STATE OF NEW MEXICO COMMITTED TO SAID AGREEMENT SHALL BE AND THE SAME ARE HEREBY AMENDED SO THAT THE PROVISIONS THEREOF WILL CONFORM TO THE PROVISIONS OF SAID UNIT AGREEMENT AND SO THAT THE LENGTH OF THE SECONDARY TERM OF EACH SUCH LEASE AS TO THE LANDS WITHIN THE UNIT AREA WILL BE EXTENDED, INsofar AS IS NECESSARY, TO COINCIDE WITH THE TERMS OF SAID UNIT AGREEMENT AND IN THE EVENT THE TERM OF SAID UNIT AGREEMENT SHALL BE EXTENDED AS PROVIDED THEREIN, SUCH EXTENSION SHALL ALSO BE EFFECTIVE TO EXTEND THE TERM OF EACH OIL AND GAS LEASE EMBRACING LANDS OF THE STATE OF NEW MEXICO COMMITTED TO SAID UNIT AGREEMENT WHICH WOULD OTHERWISE EXPIRE, SO AS TO COINCIDE WITH THE EXTENDED TERM OF SUCH UNIT AGREEMENT.

IN WITNESS WHEREOF, THIS CERTIFICATE OF APPROVAL IS EXECUTED AS OF THIS
____ DAY OF _____, 1964.

COMMISSIONER OF PUBLIC LANDS
OF THE STATE OF NEW MEXICO

DRAFT
JMD/esr

Sept. 9, 1964

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 3102

Order No. R- 2768

APPLICATION OF SUNSET INTERNATIONAL PETROLEUM CORPORATION
FOR APPROVAL OF THE MAL-GRA
UNIT AGREEMENT, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on
September 9, 1964, at Santa Fe, New Mexico, before Examiner
Daniel S. Nutter.

NOW, on this _____ day of September, 1964, the Commission,
a quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, 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 applicant, Sunset International
Petroleum Corporation,
seeks approval of the Mal-Gra Unit Agreement
covering 600 acres, more or less, of State lands in
Township 17 South Range 33 East NMPM,
Lea County, New Mexico.

(3) That approval of the proposed unit agreement should
promote the prevention of waste and the protection of correla-
tive rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the Mal-Gra Unit Agreement
is hereby approved.

(2) That the plan contained in said unit agreement for the
development and operation of the unit area is hereby 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, duty, or obligation

which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

LEA COUNTY, NEW MEXICO

TOWNSHIP 17 SOUTH, RANGE 33 EAST

Section 20: S/2

Section 21: W/2 NW/4, SE/4 NW/4,
W/2 SW/4, and SE/4 SW/4

Section 29: NE/4 NE/4

containing 600 acres, more or less.

(4) That the unit area may be enlarged or contracted as provided in the unit agreement; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

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

(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

MAILED
'65 JAN 21 AM 10

3102

January 20, 1965

Sunset International Petroleum Corporation
1205 Petroleum Life Building
Midland, Texas

Re: Mal-Gra Unit
Lea County, New Mexico

Attention: Mr. Robert W. Arrendiell

Gentlemen:

The Commissioner of Public Lands approves as January 20, 1965, the Mal-Gra Unit, Lea County, New Mexico. This Unit Agreement was approved by the New Mexico Oil Conservation Commission by Case No. 3102 and 3103 and Order No. R-2768 and R-2769 on September 16, 1964.

We are handing to Mr. Arrendiell six (6) originally signed copies of our Certificate of Approval together with Official Receipt No. H-01429 in the amount of Fifteen (\$15.00) Dollars which covers the filing fee.

Very truly yours,

GUYTON B. HAYS
COMMISSIONER OF PUBLIC LANDS

BY:
(Mr.) Ted Bilberry, Director
Oil & Gas Department

GBH/tb/emr/v

cc:

New Mexico Oil Conservation Commission
Santa Fe, New Mexico

UNIT AGREEMENT
MAL-GRA UNIT
MALJAMAR FIELD
LFA COUNTY, NEW MEXICO

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
App 1 EXHIBIT NO. 1
CASE NO. 3102

UNIT AGREEMENT

MAL-GRA UNIT

MALJAMAR FIELD

LEA COUNTY, NEW MEXICO

UNIT AGREEMENT
MAL-GRA UNIT
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
MAL GRA UNIT
MALJAMAR FIELD
LEA COUNTY, NEW MEXICO
NO. _____

THIS AGREEMENT, ENTERED INTO AS OF THE 1ST DAY OF AUGUST, 1964, BY AND BETWEEN THE PARTIES SUBSCRIBING, RATIFYING, OR CONSENTING HERETO, AND HEREIN REFERRED TO AS "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 (SECTION 3, CHAPTER 88, LAWS 1943 AS AMENDED BY SECTION 1 OF CHAPTER 162, LAWS OF 1951) TO CONSENT TO OR APPROVE THIS AGREEMENT ON BEHALF OF THE STATE OF NEW MEXICO, INSOFAR AS IT COVERS AND INCLUDES LANDS AND MINERAL INTERESTS OF THE STATE OF NEW MEXICO; 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) TO AMEND WITH THE APPROVAL OF THE LESSEE, ANY OIL AND GAS LEASE EMBRACING STATE LANDS SO THAT THE LENGTH OF THE TERM OF SAID LEASE MAY COINCIDE WITH THE TERMS OF THE UNITIZED DEVELOPMENT AND OPERATION OF STATE LANDS; AND

WHEREAS, THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO IS AUTHORIZED BY LAW (CHAPTER 72, LAWS OF 1935, AS AMENDED BY CHAPTER 193, LAWS OF 1937, CHAPTER 166, LAWS OF 1951, 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 UNIT AREA SUBJECT TO THIS AGREEMENT TO GIVE REASONABLE EFFECTIVE CONTROL OF OPERATION THEREIN; AND

WHEREAS, IT IS THE PURPOSE OF THE PARTIES HERETO, TO ENABLE INSTITUTION AND CONSUMMATION OF SECONDARY RECOVERY OPERATIONS, TO CONSERVE NATURAL RESOURCES, PREVENT WASTE AND SECURE THE OTHER BENEFITS OBTAINABLE THROUGH DEVELOPMENT AND OPERATION OF THE UNIT AREA SUBJECT TO THIS AGREEMENT UNDER THE TERMS, CONDITIONS, AND LIMITATIONS HEREIN SET FORTH.

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND PROMISES HEREIN CONTAINED, THE PARTIES HERETO COMMIT TO THIS AGREEMENT THEIR RESPECTIVE INTERESTS IN THE BELOW DEFINED UNIT AREA SUBJECT TO THIS AGREEMENT, AND AGREE SEVERALLY AMONG THEMSELVES AS FOLLOWS:

1. DEFINITIONS: FOR THE PURPOSE OF THIS AGREEMENT, THE FOLLOWING TERMS AND EXPRESSIONS AS USED HEREIN SHALL MEAN:
 - (A) "COMMISSION" IS DEFINED AS THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO.
 - (B) "COMMISSIONER" IS DEFINED AS THE COMMISSIONER OF PUBLIC LANDS OF THE STATE OF NEW MEXICO.
 - (C) "PAYING QUANTITIES" IS DEFINED AS PRODUCTION OF UNITIZED SUBSTANCES IN QUANTITIES SUFFICIENT TO PAY FOR THE COST OF PRODUCING SAME FROM WELLS COMPLETED IN THE UNITIZED FORMATION.

- (D) "PRODUCTIVE ACREAGE" IS DEFINED AS AND SHALL MEAN THE ACREAGE REASONABLE PROVEN TO BE PRODUCTIVE OF UNITIZED SUBSTANCES FROM THE UNITIZED FORMATION.
- (E) "ULTIMATE RECOVERY" SHALL MEAN AND REFER TO THE NUMBER OF BARRELS OF OIL AVAILABLE FOR PRODUCTION, AS DETERMINED AND DESCRIBED IN TABLE C ATTACHED HERETO, FROM THE TRACTS HEREINAFTER DESCRIBED IN EXHIBIT A & B BY PRESENTLY KNOWN AND COMMONLY ACCEPTED PRIMARY RECOVERY PRODUCTION METHODS.
- (F) "CURRENT PRODUCTION" SHALL MEAN AND REFER TO THE TOTAL PRODUCTION OF OIL DURING AND INCLUDING THE PERIOD OF JULY TO DECEMBER OF THE YEAR 1963.
- (G) "ROYALTY INTEREST" MEANS A RIGHT TO OR INTEREST IN ANY PORTION OF THE UNITIZED SUBSTANCES OR PROCEEDS THEREOF OTHER THAN WORKING INTEREST.
- (H) "ROYALTY OWNER" MEANS A PARTY HERETO WHO OWNS A ROYALTY INTEREST.
- (I) "SECONDARY PRODUCTION" IS DEFINED AS AND SHALL BE ALL OIL PRODUCED FROM THE UNITIZED FORMATION AFTER THE REMAINING PRIMARY PRODUCTION HAS BEEN PRODUCED.
- (J) "UNITIZED FORMATION" IS DEFINED AS AND SHALL MEAN THAT HERETOFORE ESTABLISHED UNDERGROUND RESERVOIR UNDERLYING UNIT AREA AND COMMONLY KNOWN AS THE GRAYBURG FORMATION OF THE PERMIAN AGE BEING FURTHER IDENTIFIED AS THE PRODUCING FORMATION FOUND IN SUNSET INTERNATIONAL PETROLEUM CORPORATIONS STATE B-1 WELL LOCATED IN THE NE/4 SE/4 SECTION 20 - T17S-R33E, LEA COUNTY, NEW MEXICO BETWEEN THE DEPTHS OF 4,230' AND 4,380'.
- (K) "UNITIZED SUBSTANCES" IS DEFINED AS AND SHALL MEAN ALL OF THE OIL AND GAS CONTAINED IN OR PRODUCED FROM THE UNITIZED FORMATION.
- (L) "UNITIZED LAND" OR "LAND SUBJECT TO THIS AGREEMENT" IS DEFINED AS AND SHALL MEAN THOSE LANDS WITHIN THE UNIT AREA WHICH ARE COMMITTED TO THIS AGREEMENT.
- (M) "UNIT MANAGER" IS DEFINED AS THE PERSON OR CORPORATION APPOINTED BY THE WORKING INTEREST OWNERS TO PERFORM THE DUTIES OF THE UNIT OPERATOR UNTIL THE SELECTION AND QUALIFICATION OF A SUCCESSOR UNIT OPERATOR AS PROVIDED FOR IN SECTION 8 HEREOF.
- (N) "UNIT OPERATING AGREEMENT" IS DEFINED AS AND SHALL MEAN THE AGREEMENT ENTERED INTO (SEPARATELY OR COLLECTIVELY) BY AND BETWEEN THE UNIT OPERATOR AND THE WORKING INTEREST OWNERS AS PROVIDED IN SECTION 9, ENTITLED, "UNIT OPERATING AGREEMENT, MAL-GRA UNIT, LEA COUNTY, NEW MEXICO", OR ANY AMENDMENT OR SUPPLEMENT THERETO.
- (O) "USABLE WELL" IS DEFINED AS A WELL WHICH HAS BEEN DRILLED IN THE UNIT AREA TO THE DEPTH OF THE UNITIZED FORMATION AND HAS CASING IN THE HOLE IN CONDITION FOR USE AS EITHER A PRODUCING WELL OR AN INJECTION WELL, AND ON WHICH WELL THERE HAS BEEN FILED WITH THE STATE OF NEW MEXICO, ON OR BEFORE THE EFFECTIVE DATE OF THIS AGREEMENT, A WELL RECORD AND COMPLETION REPORT (FORM C-105) OR REQUEST FOR OIL ALLOWABLE (FORM C-104) AND WHICH WELL HAS PRODUCED SOME OIL FROM THE UNITIZED FORMATION AND HAS HAD AN ALLOWABLE GRANTED FOR IT BY THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO.
- (P) "WORKING INTEREST" MEANS AN INTEREST IN UNITIZED SUBSTANCES BY VIRTUE OF A LEASE, OPERATING AGREEMENT, FEE TITLE, OR OTHERWISE, INCLUDING A CARRIED INTEREST, WHICH INTEREST IS CHARGEABLE WITH AND OBLIGATED TO PAY OR BEAR, EITHER IN CASH OR OUT OF PRODUCTION OR OTHERWISE, ALL OR A PORTION OF THE COST OF DRILLING, DEVELOPING, PRODUCING, AND OPERATING THE UNITIZED FORMATION. ANY INTEREST IN UNITIZED SUBSTANCES

WHICH IS A WORKING INTEREST AS OF THE DATE THE OWNER THEREOF EXECUTES OR RATIFIES THIS AGREEMENT SHALL THEREAFTER BE TREATED AS A WORKING INTEREST FOR ALL PURPOSES OF THIS AGREEMENT.

- (q) "WORKING INTEREST OWNER" MEANS A PARTY HERETO WHO OWNS A WORKING INTEREST. THE OWNER OF OIL AND GAS RIGHTS THAT ARE FREE OF LEASE OR OTHER INSTRUMENT CONVEYING THE WORKING INTEREST TO ANOTHER SHALL BE REGARDED AS A WORKING INTEREST OWNER TO THE EXTENT OF SEVEN-EIGHTS ($7/8$) OF HIS INTEREST IN UNITIZED SUBSTANCES, AND AS A ROYALTY OWNER WITH RESPECT TO HIS REMAINING ONE-EIGHTH ($1/8$) INTEREST THEREIN.

2. UNIT AREA AND PARTICIPATION: THE FOLLOWING DESCRIBED LAND IS HEREBY DESIGNATED AND RECOGNIZED AS CONSTITUTING THE UNIT AREA AS TO WHICH THIS AGREEMENT BECOMES EFFECTIVE, TO WIT:

NEW MEXICO PRINCIPAL MERIDAN, NEW MEXICO

T.17S., R.33E.

SECTION 20: S/2
21: W/2 W/2, SE/4 SW/4 AND SE/4 NW/4
29: NE/4 NE/4

SITUATED IN LEA COUNTY, NEW MEXICO, CONTAINING 600 ACRES, MORE OR LESS, AND SUCH ADDITIONAL LANDS TO WHICH THIS AGREEMENT MAY BE EXTENDED, ALL AS HEREIN PROVIDED

EXHIBIT "A" ATTACHED HERETO IS A MAP SHOWING THE UNIT AREA AND THE BOUNDARIES AND IDENTITY OF TRACTS AND LEASES IN SAID UNIT 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 COMPRISING EACH TRACT, PERCENTAGE OWNERSHIP OF EACH WORKING INTEREST OWNER IN EACH TRACT, AND THE PERCENTAGES OF PARTICIPATION. 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 COMMISSIONER. TWO COPIES OF SUCH REVISION SHALL BE FILED WITH THE COMMISSIONER.

THE ABOVE DESCRIBED UNIT AREA MAY, WHEN PRACTICABLE, BE EXPANDED TO INCLUDE THEREIN ANY ADDITIONAL TRACT OR TRACTS REGARDED AS REASONABLY NECESSARY OR ADVISABLE FOR THE PURPOSES OF THIS AGREEMENT. SUCH EXPANSION SHALL BE EFFECTED IN THE FOLLOWING MANNER:

- (A) THE OWNER OR OWNERS OF THE WORKING INTEREST IN AND TO A TRACT OR TRACTS DESIRING TO BRING SUCH TRACT OR TRACTS INTO THE UNIT AREA SHALL FILE AN APPLICATION THEREFOR WITH UNIT OPERATOR REQUESTING SUCH ADMISSION.
- (B) UNIT OPERATOR SHALL CIRCULATE A NOTICE TO EACH WORKING INTEREST OWNER OF THE PROPOSED EXPANSION, SETTING OUT THE BASIS FOR ADMISSION, THE UNIT PARTICIPATION TO BE ASSIGNED TO SUCH TRACT OR TRACTS, AND OTHER PERTINENT DATA. AFTER NEGOTIATION (AT WORKING INTEREST OWNERS; MEETING OR OTHERWISE) IF WORKING INTEREST OWNERS HAVING NINETY PER CENT (90%) OF THE WORKING INTEREST IN THE UNIT AREA AGREE TO SUCH TRACT OR TRACTS BEING BROUGHT INTO THE UNIT AREA, THEN UNIT OPERATOR SHALL, AFTER PRELIMINARY CONCURRENCE BY THE COMMISSIONER,
- (1) PREPARE A NOTICE OF PROPOSED EXPANSION DESCRIBING THE CONTEMPLATED CHANGES IN THE BOUNDARIES OF THE UNIT AREA, THE REASON THEREFOR, THE BASIS FOR ADMISSION OF THE ADDITIONAL TRACT OR TRACTS, THE UNIT PARTICIPATION TO BE ASSIGNED THERETO AND THE

PROPOSED EFFECTIVE DATE THEREOF, PREFERABLY THE FIRST DAY OF A MONTH SUBSEQUENT TO THE DAY OF NOTICE; AND

- (2) DELIVER COPIES OF SAID NOTICE TO THE COMMISSIONER, EACH WORKING INTEREST OWNER (MAILING COPY OF SUCH NOTICE TO THE LAST KNOWN ADDRESS OF EACH SUCH WORKING INTEREST OWNER) AND TO THE LESSEE AND LESSOR WHOSE INTERESTS ARE AFFECTED, ADVISING SUCH PARTIES THAT THIRTY (30) DAYS WILL BE ALLOWED FOR SUBMISSION TO THE UNIT OPERATOR OF ANY OBJECTIONS TO SUCH PROPOSED EXPANSIONS; AND
- (3) FILE, UPON THE EXPIRATION OF SAID THIRTY (30) DAY PERIOD AS SET OUT IN ITEM 2 IMMEDIATELY ABOVE, WITH THE COMMISSIONER THE FOLLOWING: (A) EVIDENCE OF MAILING COPIES OF SAID NOTICE OF EXPANSION; (B) AN APPLICATION FOR SUCH EXPANSION; (C) AN INSTRUMENT CONTAINING THE APPROPRIATE JOINDERS IN COMPLIANCE WITH THE PARTICIPATION REQUIREMENT OF SECTION 31, "NONJOINDER AND SUBSEQUENT JOINDER", INFRA; AND (D) COPY OF ANY OBJECTIONS RECEIVED.

THE EXPANSION SHALL, AFTER DUE CONSIDERATION OF ALL PERTINENT INFORMATION AND UPON APPROVAL BY THE COMMISSIONER, BECOME EFFECTIVE AS OF THE DATE PRESCRIBED IN THE NOTICE THEREOF.

3. UNITIZED SUBSTANCES AND RIGHTS: ALL OIL AND GAS IN OR THAT MAY BE PRODUCED FROM THE UNITIZED FORMATION UNDERLYING THE LANDS SUBJECT TO THIS AGREEMENT, TOGETHER WITH THE RIGHT TO USE THE SURFACE OF SAID LANDS FOR THE DEVELOPMENT AND OPERATION OF THE UNITIZED FORMATION ARE UNITIZED UNDER THE TERMS OF THIS AGREEMENT. NOTHING HEREIN SHALL BE CONSTRUED TO UNITIZE, POOL, OR IN ANY WAY AFFECT THE OIL, GAS, AND OTHER MINERALS CONTAINED IN OR THAT MAY BE PRODUCED FROM ANY FORMATION OTHER THAN THE PERMIAN GRAYBURG FORMATION, AS ABOVE DESCRIBED.

4. UNIT OPERATOR: SUNSET INTERNATIONAL PETROLEUM CORPORATION, BEVERLY HILLS, CALIFORNIA, IS HEREBY DESIGNATED AS UNIT OPERATOR AND BY SIGNING THIS INSTRUMENT AS UNIT OPERATOR AGREES AND CONSENTS TO ACCEPT THE DUTIES AND OBLIGATIONS OF UNIT OPERATOR FOR THE OPERATION AND DEVELOPMENT OF THE UNITIZED FORMATION FOR THE 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.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: UNIT OPERATOR SHALL HAVE THE RIGHT TO RESIGN AT ANY TIME, BUT SUCH RESIGNATION SHALL NOT BECOME EFFECTIVE SO AS TO RELEASE UNIT OPERATOR FROM THE DUTIES AND OBLIGATIONS OF UNIT OPERATOR AND TERMINATE UNIT OPERATOR'S RIGHTS AS SUCH FOR A PERIOD OF SIX (6) MONTHS AFTER NOTICE OF INTENTION TO RESIGN HAS BEEN SERVED BY UNIT OPERATOR ON ALL WORKING INTEREST OWNERS AND THE COMMISSIONER, AND UNTIL ALL WELLS THEN SUBJECT HERETO ARE PLACED IN A SATISFACTORY CONDITION FOR SUSPENSION OR ABANDONMENT, UNLESS A NEW UNIT OPERATOR SHALL HAVE TAKEN OVER AND ASSUMED THE DUTIES AND OBLIGATIONS OF UNIT OPERATOR PRIOR TO THE EXPIRATION OF SAID PERIOD.

THE RESIGNATION OF UNIT OPERATOR SHALL NOT RELEASE UNIT OPERATOR FROM ANY LIABILITY FOR ANY DEFAULT BY IT HEREUNDER OCCURRING PRIOR TO THE EFFECTIVE DATE OF ITS RESIGNATION.

THE UNIT OPERATOR MAY BE SUBJECT TO REMOVAL BY EIGHTY-FIVE PER CENT (85%) OF THE COMMITTED WORKING INTERESTS ON THE BASIS OF UNIT PARTICIPATION, IN EFFECT AT THE TIME, EXCLUSIVE OF THE UNIT OPERATOR. SUCH REMOVAL SHALL BE EFFECTIVE UPON NOTICE THEREOF TO THE COMMISSIONER.

IN ALL SUCH INSTANCES OF RESIGNATION OR REMOVAL, UNTIL A SUCCESSOR UNIT OPERATOR IS SELECTED AND APPROVED AS HEREINAFTER PROVIDED, THE WORKING INTEREST OWNERS SHALL BE JOINTLY RESPONSIBLE FOR THE PERFORMANCE OF DUTIES OF THE UNIT

OPERATOR AND SHALL, NOT LATER THAN THIRTY (30) DAYS BEFORE SUCH RESIGNATION OR REMOVAL BECOMES EFFECTIVE, APPOINT A UNIT MANAGER 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 OR ALL EQUIPMENT, MATERIALS, APPURTENANCES, AND ANY OTHER ASSETS, USED IN CONDUCTING THE UNIT OPERATIONS AND OWNED BY THE WORKING INTEREST OWNERS TO THE NEW DULY QUALIFIED SUCCESSOR UNIT OPERATOR OR THE UNIT MANAGER 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 WORKING INTEREST OWNERS SHALL SELECT A SUCCESSOR UNIT OPERATOR BY A MAJORITY OF THE WORKING INTERESTS ON THE BASIS OF UNIT PARTICIPATION, PROVIDED NO UNIT OPERATOR WHO HAS BEEN REMOVED MAY VOTE FOR SELF SUCCESSION. 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 OR UNIT MANAGER IS SELECTED AND QUALIFIED AS HEREIN PROVIDED, THE COMMISSIONER, AT HIS 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, APPORTIONED AMONG AND BORNE BY THE WORKING INTEREST OWNERS IN ACCORDANCE WITH THE AGREEMENT OR AGREEMENTS ENTERED INTO (SEPARATELY OR COLLECTIVELY) BY AND BETWEEN THE WORKING INTEREST OWNERS. 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 THE THE UNIT OPERATOR AND THE WORKING INTEREST OWNERS; HOWEVER, NO SUCH UNIT OPERATING AGREEMENT SHALL BE DEEMED EITHER TO MODIFY ANY OF THE TERMS AND CONDITIONS OF THIS UNIT AGREEMENT OR TO RELIEVE THE UNIT OPERATOR OF ANY RIGHT OR OBLIGATION ESTABLISHED UNDER THIS UNIT AGREEMENT, AND IN CASE OF ANY INCONSISTENCY OR CONFLICT BETWEEN THE UNIT AGREEMENT AND THE UNIT OPERATING AGREEMENT, THIS UNIT AGREEMENT SHALL PREVAIL. TWO TRUE COPIES OF ANY UNIT OPERATING AGREEMENT EXECUTED PURSUANT TO THIS SECTION SHALL BE FILED WITH THE COMMISSIONER PRIOR TO APPROVAL OF THIS AGREEMENT.

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. PLAN OF OPERATIONS: IT IS RECOGNIZED AND AGREED, BY THE PARTIES HERETO THAT ALL OF THE LAND SUBJECT TO THIS AGREEMENT IS REASONABLY PROVED TO BE PRODUCTIVE OF UNITIZED SUBSTANCES IN PAYING QUANTITIES AND THAT THE OBJECT AND PURPOSE OF THIS AGREEMENT IS TO FORMULATE AND PUT INTO EFFECT A SECONDARY RECOVERY PROJECT IN ORDER TO EFFECT THE GREATEST RECOVERY OF UNITIZED SUBSTANCES, PREVENT WASTE, AND

CONSERVE NATURAL RESOURCES. THE PARTIES HERETO AGREE THAT THE UNIT OPERATOR MAY, SUBJECT TO THE CONSENT AND APPROVAL OF A PLAN OF OPERATION BY THE WORKING INTEREST OWNERS AND THE COMMISSIONER, INJECT INTO THE UNITIZED FORMATION, THROUGH ANY WELL OR WELLS COMPLETED THEREIN, BRINE, WATER, AIR, GAS, OIL, AND ANY ONE OR MORE OTHER SUBSTANCES WHETHER PRODUCED FROM THE UNIT AREA OR NOT, AND THAT THE LOCATION OF INPUT WELLS AND THE RATES OF INJECTION THEREIN AND THE RATE OF PRODUCTION SHALL BE GOVERNED BY STANDARDS OF GOOD GEOLOGIC AND PETROLEUM ENGINEERING PRACTICES AND CONSERVATION METHODS. SUBJECT TO THE LIKE APPROVAL, THE PLAN OF OPERATIONS MAY BE REVISED AS CONDITIONS MAY WARRANT. THE INITIAL PLAN OF OPERATION SHALL BE FILED WITH THE COMMISSIONER CONCURRENTLY WITH THE FILING OF THIS UNIT AGREEMENT FOR FINAL APPROVAL. SAID INITIAL PLAN OF OPERATION AND ALL REVISIONS THEREOF SHALL BE AS COMPLETE AND ADEQUATE AS THE COMMISSIONER MAY DETERMINE TO BE NECESSARY FOR TIMELY OPERATION CONSISTENT HERewith. REASONABLE DILIGENCE SHALL BE EXERCISED IN COMPLYING WITH THE OBLIGATIONS OF THE APPROVED PLAN OF OPERATION.

10. TRACT PARTICIPATION: TRACT PARTICIPATION OF EACH TRACT IS SHOWN ON EXHIBIT "B" BASED UPON A PARTICIPATION FACTOR DEFINED HEREINAFTER BY FORMULA ON 70% ULTIMATE RECOVERY OF 535,000 BBL. (DEFINED IN SECTION 1) AND 30% CURRENT RATE OF PRODUCTION OF 10,370 BBL. (DEFINED IN SECTION 1).

THE TRACT PARTICIPATION FACTOR SHOWN IN EXHIBIT "B" IS DETERMINED IN ACCORDANCE WITH THE FOLLOWING FORMULA:

$$\text{TRACT PARTICIPATION} = \frac{\text{TRACT ULTIMATE RECOVERY}}{\text{TOTAL ULTIMATE RECOVERY}} \times (70\%) + \frac{\text{TRACT CURRENT PRODUCTION}}{\text{TOTAL CURRENT PRODUCTION}} \times (30\%)$$

IF THE UNIT AREA IS ENLARGED OR REDUCED, THE REVISED TRACT PARTICIPATIONS OF THE TRACTS REMAINING IN THE UNIT AREA AND WHICH WERE WITHIN THE UNIT AREA PRIOR TO THE ENLARGEMENT OR REDUCTION SHALL REMAIN IN THE SAME RATION ONE TO ANOTHER.

11. TRACTS QUALIFIED FOR UNIT PARTICIPATION: ON AND AFTER THE EFFECTIVE DATE HEREOF AND UNTIL THE ENLARGEMENT OR REDUCTION THEREOF, THE UNIT AREA SHALL BE COMPOSED OF THE TRACTS LISTED IN EXHIBIT "B" THAT CORNER OR HAVE A COMMON BOUNDARY (TRACTS SEPARATED ONLY BY A PUBLIC HIGHWAY OR RAILROAD RIGHT OF WAY SHALL BE CONSIDERED TO HAVE A COMMON BOUNDARY), AND THAT OTHERWISE QUALIFY AS FOLLOWS:

- (A) EACH TRACT AS TO WHICH WORKING INTEREST OWNERS OWNING ONE HUNDRED PER CENT (100%) OF THE WORKING INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT AND THE UNIT OPERATING AGREEMENT AND AS TO WHICH ROYALTY OWNERS OWNING ONE HUNDRED PERCENT (100%) OF THE ROYALTY INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT; AND
- (B) EACH TRACT AS TO WHICH WORKING INTEREST OWNERS OWNING NOT LESS THAN NINETY-FIVE PER CENT (95%) OF THE WORKING INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT AND THE UNIT OPERATING AGREEMENT AND AS TO WHICH ROYALTY OWNERS OWNING NOT LESS THAN SEVENTY-FIVE PER CENT (75%) OF THE ROYALTY INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT, AND IN WHICH THE WORKING INTEREST OWNERS IN SAID TRACT WHO HAVE SIGNED OR RATIFIED THIS AGREEMENT AND UNIT OPERATING AGREEMENT HAVE AGREED TO INDEMNIFY AND HOLD HARMLESS ALL OTHER PARTIES HERETO, IN A MANNER SATISFACTORY TO THE WORKING INTEREST OWNERS QUALIFIED UNDER (A) AGAINST ANY OR ALL CLAIMS AND DEMANDS THAT MAY BE MADE BY THE NONJOINING OWNERS OF WORKING OR ROYALTY INTERESTS ON ACCOUNT OF THE INCLUSION OF SUCH TRACT IN THE UNIT AREA AND THE OPERATION OF THE UNIT AREA ON THE BASIS HEREIN PROVIDED, AND AS TO WHICH EIGHTY-FIVE PER CENT (85%) OF THE WORKING INTEREST OWNERS QUALIFIED UNDER (A), EXCLUSIVE OF THE WORKING INTEREST OWNER SUBMITTING SUCH TRACT, HAVE APPROVED THE INCLUSION OF SUCH TRACT IN THE UNIT AREA.

IF, ON THE EFFECTIVE DATE OF THIS AGREEMENT, THERE IS ANY TRACT OR TRACTS WHICH HAVE NOT BEEN EFFECTIVELY COMMITTED TO OR MADE SUBJECT TO THIS AGREEMENT BY QUALIFYING AS ABOVE PROVIDED, THEN SUCH TRACT OR TRACTS SHALL NOT BE ENTITLED TO PARTICIPATE HEREUNDER. UNIT OPERATOR SHALL, WHEN SUBMITTING THIS AGREEMENT FOR FINAL APPROVAL BY THE COMMISSIONER, FILE THEREWITH A SCHEDULE OF THOSE TRACTS WHICH HAVE BEEN COMMITTED AND MADE SUBJECT TO THIS AGREEMENT AND ARE ENTITLED TO PARTICIPATE IN THE PRODUCTION FROM THE UNIT AREA HEREUNDER. SAID SCHEDULE SHALL SET FORTH OPPOSITE EACH SUCH COMMITTED TRACT, THE LEASE NUMBER, ASSIGNMENT NUMBER, THE OWNER OF RECORD AND PERCENTAGE PARTICIPATION OF SUCH TRACT WHICH SHALL BE COMPUTED ACCORDING TO THE PARTICIPATION FORMULA SET OUT ABOVE. THIS SCHEDULE SHALL BECOME REVISED EXHIBIT "B" AND APPROVAL THEREOF BY THE COMMISSIONER, SHALL BECOME A PART OF THIS AGREEMENT AND SHALL GOVERN THE ALLOCATION OF PRODUCTION OF UNITIZED SUBSTANCES UNTIL A NEW SCHEDULE IS FILED AND APPROVED BY THE COMMISSIONER.

12. ALLOCATION OF UNITIZED SUBSTANCES: ALL UNITIZED SUBSTANCES PRODUCED AND SAVED (LESS, SAVE AND EXCEPT ANY PART OF SUCH UNITIZED SUBSTANCES USED IN CONFORMITY WITH GOOD OPERATING PRACTICES WITHIN THE UNIT AREA FOR DRILLING, OPERATING, CAMP, AND OTHER PRODUCTION OR DEVELOPMENT PURPOSES AND FOR PRESSURE MAINTENANCE OR UN-AVOIDABLE LOSS) SHALL BE APPORTIONED AMONG AND ALLOCATED TO THE SEVERAL TRACTS WITHIN THE UNIT AREA IN ACCORDANCE WITH THE RESPECTIVE TRACT PARTICIPATION EFFECTIVE HEREUNDER DURING THE RESPECTIVE PERIODS SUCH UNITIZED SUBSTANCES WERE PRODUCED, AS SET FORTH IN EXHIBIT "B". THE AMOUNT OF UNITIZED SUBSTANCES SO ALLOCATED TO EACH TRACT, AND ONLY THAT AMOUNT, REGARDLESS OF WHETHER IT BE MORE OR LESS THAN THE AMOUNT OF THE ACTUAL PRODUCTION OF UNITIZED SUBSTANCES FROM A WELL OR WELLS, IF ANY, ON SUCH TRACT SHALL, FOR ALL INTENTS, USES, AND PURPOSES, BE DEEMED TO HAVE BEEN PRODUCED FROM SUCH TRACT.

THE UNITIZED SUBSTANCES ALLOCATED TO EACH TRACT SHALL BE DISTRIBUTED AMONG, OR ACCOUNTED FOR TO THE PARTIES EXECUTING, CONSENTING TO, OR RATIFYING THIS AGREEMENT ENTITLED TO SHARE IN THE PRODUCTION FROM SUCH TRACT IN THE SAME MANNER, IN THE SAME PROPORTIONS, AND UPON THE SAME CONDITIONS AS THEY WOULD HAVE PARTICIPATED AND SHARED IN THE PRODUCTION FROM SUCH TRACTS, OR IN THE PROCEEDS THEREOF, HAD THIS AGREEMENT NOT BEEN ENTERED INTO, AND WITH THE SAME LEGAL FORCE AND EFFECT.

NOTHING HEREIN CONTAINED SHALL BE CONSTRUED AS RETROACTIVELY AFFECTING THE OWNERSHIP OF, OR AS REQUIRING ANY RETROACTIVE ADJUSTMENT FOR, PRODUCTION OF OIL OR GAS OBTAINED PRIOR TO THE EFFECTIVE DATE OF THIS AGREEMENT, OR PRIOR TO THE EFFECTIVE DATE OF THE JOINDER OF ANY TRACT, OR THE COMMITMENT OF ANY INTEREST HERETO.

NO TRACT COMMITTED TO THIS AGREEMENT AND QUALIFIED FOR PARTICIPATION AS ABOVE PROVIDED SHALL BE SUBSEQUENTLY EXCLUDED FROM PARTICIPATION HEREUNDER ON ACCOUNT OF THE DEPLETION OF UNITIZED SUBSTANCES.

IF ANY WORKING INTEREST OR ROYALTY INTEREST IN ANY TRACT IS OR BECOMES DIVIDED AND OWNED BY SEVERALTY AS TO DIFFERENT PARTS OF THE TRACT, THE PERCENTAGE PARTICIPATION ATTRIBUTABLE TO SUCH INTEREST, IN THE ABSENCE OF RECORDABLE INSTRUMENT EXECUTED BY THE OWNERS OF THE DIVIDED INTEREST AND FURNISHED TO THE UNIT OPERATOR PROVIDING FOR A DIFFERENT DIVISION, SHALL BE DIVIDED AMONG THE SEPARATE OWNERS IN PROPORTION TO THE SURFACE ACRES OF THEIR RESPECTIVE PARTS OF THE TRACTS.

THE UNITIZED SUBSTANCES ALLOCATED TO EACH TRACT SHALL BE DELIVERED IN KIND TO THE RESPECTIVE PARTIES ENTITLED THERETO BY VIRTUE OF THE OWNERSHIP OF OIL AND GAS RIGHTS THEREIN OR BY PURCHASE FROM SUCH OWNERS. EACH WORKING INTEREST OWNER AND THE PARTIES ENTITLED THERETO SHALL HAVE THE CONTINUING RIGHT TO RECEIVE SUCH PRODUCTION IN KIND AT A COMMON POINT WITHIN THE UNIT AREA AND TO SELL OR DISPOSE OF THE SAME AS IT SEES FIT. SUCH PARTY SHALL HAVE THE RIGHT TO CONSTRUCT, MAINTAIN, AND OPERATE WITHIN THE UNIT AREA ALL NECESSARY FACILITIES FOR THAT PURPOSE, PROVIDED THE SAME ARE SO CONSTRUCTED, MAINTAINED, AND OPERATED NOT TO INTERFERE WITH OPERATIONS CARRIED ON PURSUANT HERETO. SUBJECT TO SECTION 14 HEREOF, ROYALTY SETTLEMENT, ANY EXTRA EXPENDITURES INCURRED BY UNIT OPERATOR BY REASON OF DELIVERY IN KIND OF ANY PORTION OF THE UNITIZED SUBSTANCES SHALL BE BORNE BY THE PARTY RECEIVING THE SAME IN KIND. IN THE EVENT ANY PARTY HERETO SHALL FAIL TO TAKE OR OTHERWISE ADEQUATELY DISPOSE OF ITS PROPORTIONATE SHARE OF THE UNITIZED SUBSTANCES FROM THE UNIT AREA CURRENTLY AS AND WHEN PRODUCED, THEN SO LONG AND ONLY SO LONG, AS SUCH CONDI-

TIONS CONTINUE, UNIT OPERATOR, FOR THE ACCOUNT AND AT THE EXPENSE OF SUCH PARTY IN ORDER TO AVOID CURTAILING THE OPERATION OF THE UNIT AREA, MAY SELL OR ITSELF PURCHASE SUCH PRODUCTION ON A DAY-TO-DAY BASIS AT NOT LESS THAN THE PREVAILING MARKET PRICE IN THE AREA FOR LIKE PRODUCTION, AND THE ACCOUNT OF SUCH PARTY SHALL BE CHARGED THEREWITH AS HAVING RECEIVED THE SAME. THE PROCEEDS, IF ANY, OF THE UNITIZED SUBSTANCES SO DISPOSED OF BY UNIT OPERATOR, SHALL BE PAID TO THE PARTY ENTITLED THERETO; NOTWITHSTANDING THE FOREGOING UNIT OPERATOR SHALL NOT MAKE A SALE INTO INTERSTATE COMMERCE OF ANY OTHER PARTY'S SHARE OF GAS PRODUCTION WITHOUT FIRST GIVING SUCH OTHER PARTY SIXTY (60) DAYS' NOTICE OF SUCH INTENDED SALE.

ANY PARTY RECEIVING IN KIND OR SEPARATELY DISPOSING OF ALL OR ANY PART OF THE UNITIZED SUBSTANCES ALLOCATED TO ANY TRACT, OR RECEIVING THE PROCEEDS THEREFROM IF THE SAME IS SOLD OR PURCHASED BY UNIT OPERATOR, SHALL BE RESPONSIBLE FOR THE PAYMENT OF ALL ROYALTIES, OVERRIDING ROYALTIES, OIL PAYMENTS, NET PROFIT CONTRACTS, AND ALL PAYMENTS OUT OF OR BURDENS ON THE LEASE OR LEASES AND TRACTS CONTRIBUTED BY IT AND RECEIVED INTO THE UNIT AREA AND EACH SUCH PARTY SHALL HOLD EACH OTHER PARTY HERETO HARMLESS AGAINST ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION FOR SUCH ROYALTIES, OVERRIDING ROYALTIES, OIL PAYMENTS, NET PROFIT CONTRACTS, AND OTHER PAYMENTS OUT OF OR BURDENS ON THE LEASE OR LEASES AND TRACTS CONTRIBUTED BY IT TO THE UNIT AREA.

IF, AFTER THE EFFECTIVE DATE OF THIS AGREEMENT, THERE IS ANY TRACT OR TRACTS THAT ARE SUBSEQUENTLY COMMITTED HERETO, AS ABOVE PROVIDED IN SECTION 3, UNIT AREA AND PARTICIPATION, OR ANY TRACT OR TRACTS WITHIN THE UNIT AREA NOT EFFECTIVELY COMMITTED HERETO AS OF THE EFFECTIVE DATE HEREOF BUT WHICH ARE SUBSEQUENTLY COMMITTED HERETO UNDER THE PROVISIONS OF SECTION 29, NONJOINDER AND SUBSEQUENT JOINDER, OR IF ANY TRACT IS EXCLUDED FROM THE UNIT AREA AS PROVIDED FOR IN SECTION 28, LOSS OF TITLE, THE SCHEDULE OF PARTICIPATION AS SHOWN IN EXHIBIT "B" SHALL BE REVISED BY THE WORKING INTEREST OWNERS TO SHOW THE NEW PERCENTAGE PARTICIPATION OF ALL OF THE THEN EFFECTIVELY COMMITTED TRACTS AND THE REVISED EXHIBIT "B" UPON APPROVAL BY THE COMMISSIONER UNDER SECTION 28, LOSS OF TITLE, AND SECTION 29, NONJOINDER AND SUBSEQUENT JOINDER, AND UPON APPLICATION BY THE COMMISSIONER UNDER SECTION 2, UNIT AREA AND PARTICIPATION, SHALL GOVERN THE ALLOCATION OF UNITIZED SUBSTANCES FROM AND AFTER THE EFFECTIVE DATE THEREOF UNTIL A NEW SCHEDULE IS SO APPROVED.

13. ROYALTY SETTLEMENT: THE STATE OF NEW MEXICO AND ALL ROYALTY OWNERS WHO, UNDER EXISTING CONTRACT, 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 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, DIVISION ORDERS, LAWS, AND REGULATIONS, ON OR BEFORE THE LAST DAY OF EACH MONTH FOR UNITIZED SUBSTANCES PRODUCED DURING THE PRECEDING CALENDAR MONTH; PROVIDED, HOWEVER, THAT NOTHING HEREIN CONTAINED SHALL OPERATE TO RELIEVE THE LESSEES OF ANY LAND FROM THEIR RESPECTIVE LEASE OBLIGATIONS FOR THE PAYMENT OF ANY ROYALTIES DUE UNDER THEIR LEASES, EXCEPT THAT SUCH ROYALTIES SHALL BE COMPUTED IN ACCORDANCE WITH THE TERMS OF THIS UNIT AGREEMENT.

IF GAS OBTAINED FROM LANDS OR FORMATIONS NOT SUBJECT TO THIS AGREEMENT IS INTRODUCED INTO THE UNITIZED LAND FOR USE IN PRESSURE MAINTENANCE, STIMULATION OF PRODUCTION, OR INCREASING ULTIMATE RECOVERY, WHICH SHALL BE IN CONFORMITY WITH A PLAN FIRST APPROVED BY THE COMMISSIONER, A LIKE AMOUNT OF GAS LESS APPROPRIATE DEDUCTIONS FOR LOSS FROM ANY CAUSE MAY BE WITHDRAWN FROM THE FORMATION INTO WHICH THE GAS WAS INTRODUCED, ROYALTY FREE AS TO DRY GAS, BUT NOT AS TO THE PRODUCTS EXTRACTED THEREFROM; PROVIDED THAT SUCH WITHDRAWAL SHALL BE PURSUANT TO SUCH CONDITIONS AND FORMULAS AS MAY BE PRESCRIBED OR APPROVED BY THE COMMISSIONER AS CONFORMING TO GOOD PETROLEUM ENGINEERING PRACTICE; AND, PROVIDED FURTHER THAT SUCH RIGHT OF WITHDRAWAL SHALL TERMINATE ON THE TERMINATION OF THIS AGREEMENT.

IF LIQUEFIED PETROLEUM GASES OBTAINED FROM LANDS OR FORMATIONS NOT SUBJECT TO THIS AGREEMENT BE INJECTED INTO THE UNITIZED LAND FOR THE PURPOSE

OF INCREASING ULTIMATE RECOVERY, WHICH SHALL BE IN CONFORMANCE WITH A PLAN FIRST APPROVED BY THE COMMISSIONER, PART OR ALL OF SUCH LIQUEFIED PETROLEUM GASES, MAY BE WITHDRAWN ROYALTY FREE PURSUANT TO SUCH CONDITIONS AND FORMULAS AS MAY BE PRESCRIBED OR APPROVED BY THE COMMISSIONER.

ALL ROYALTIES DUE THE STATE OF NEW MEXICO AND THE OTHER ROYALTY OWNERS HEREUNDER SHALL BE COMPUTED AND PAID ON THE BASIS OF ALL UNITIZED SUBSTANCES ALLOCATED TO THE RESPECTIVE TRACT OR TRACTS COMMITTED HERETO, IN LIEU OF ACTUAL PRODUCTION FROM SUCH TRACT OR TRACTS.

EACH ROYALTY OWNER (OTHER THAN THE STATE OF NEW MEXICO) THAT EXECUTES THIS AGREEMENT, REPRESENTS AND WARRANTS THAT IT IS THE OWNER OF A ROYALTY INTEREST IN A TRACT OR TRACTS WITHIN THE UNIT AREA AS ITS INTEREST APPEARS IN EXHIBIT "B", ATTACHED HERETO. IF ANY ROYALTY INTEREST IN A TRACT OR TRACTS SHOULD BE LOST BY TITLE FAILURE IN WHOLE OR IN PART, DURING THE TERM OF THIS AGREEMENT, THEN THE ROYALTY INTEREST OF THE PARTY REPRESENTING HIMSELF TO BE THE OWNER THEREOF SHALL BE REDUCED PROPORTIONATELY AND THE INTEREST OF ALL PARTIES SHALL BE ADJUSTED ACCORDINGLY.

14. OIL IN LEASE TANKS ON EFFECTIVE DATE: UNIT OPERATOR SHALL MAKE PROPER AND TIMELY GAUGE OF ALL LEASE AND OTHER TANKS WITHIN THE UNIT AREA IN ORDER TO ASCERTAIN THE AMOUNT OF MERCHANTABLE OIL ABOVE THE PIPE LINE CONNECTION, IN SUCH TANKS AS OF 7:00 O'CLOCK A. M. ON THE EFFECTIVE DATE HEREOF. ALL SUCH OIL WHICH HAS BEEN PRODUCED LEGALLY SHALL BE AND REMAIN THE PROPERTY OF THE WORKING INTEREST OWNERS ENTITLED THERETO THE SAME AS IF THE UNIT HAD NOT BEEN FORMED; AND SUCH WORKING INTEREST OWNERS SHALL PROMPTLY REMOVE SAID OIL FROM THE UNIT AREA. ANY SUCH OIL NOT SO REMOVED SHALL BE SOLD BY UNIT OPERATOR FOR THE ACCOUNT OF SUCH WORKING INTEREST OWNERS, SUBJECT TO THE PAYMENT OF ALL ROYALTY TO ROYALTY OWNERS UNDER THE TERMS AND PROVISIONS OF THE APPLICABLE LEASE OR LEASES AND OTHER CONTRACTS.

15. REPORTS: UNIT OPERATOR SHALL FURNISH THE COMMISSIONER, MONTHLY, INJECTION AND PRODUCTION REPORTS FOR EACH WELL IN THE UNIT AREA, AS WELL AS PERIODICAL REPORTS OF THE DEVELOPMENT AND OPERATION OF THE UNIT AREA.

16. RENTAL SETTLEMENT: RENTALS OR MINIMUM ROYALTIES DUE ON LEASES COMMITTED HERETO SHALL BE PAID BY WORKING INTEREST OWNERS RESPONSIBLE THEREFOR UNDER EXISTENT CONTRACTS, LAWS, AND REGULATIONS PROVIDED THAT NOTHING HEREIN CONTAINED SHALL OPERATE TO RELIEVE THE LESSEES OF ANY LAND FROM THEIR RESPECTIVE LEASE OBLIGATIONS FOR THE PAYMENT OF ANY RENTAL OR MINIMUM ROYALTY IN LIEU THEREOF DUE UNDER THEIR LEASES. RENTAL FOR LANDS OF THE STATE OF NEW MEXICO, SUBJECT TO THIS AGREEMENT, SHALL BE PAID AT THE RATE SPECIFIED IN THE RESPECTIVE LEASES FROM THE STATE OF NEW MEXICO.

17. 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.

18. DRAINAGE: THE UNIT OPERATOR SHALL TAKE APPROPRIATE AND ADEQUATE MEASURES TO PREVENT DRAINAGE OF UNITIZED SUBSTANCES FROM UNITIZED FORMATION BY WELLS ON LAND NOT SUBJECT TO THIS AGREEMENT.

19. LEASES AND CONTRACTS CONFORMED AND EXTENDED: THE TERMS, CONDITIONS, AND PROVISIONS OF ALL LEASES, SUBLEASES, UNIT AGREEMENTS 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 COMMISSIONER SHALL, AND BY HIS APPROVAL HEREOF, OR BY THE APPROVAL HEREOF BY HIS DULY AUTHORIZED REPRESENTATIVE, DOES HEREBY ESTABLISH, ALTER, CHANGE, OR REVOKE THE DRILLING, PRODUCING, RENTAL, MINIMUM ROYALTY, OR ROYALTY REQUIREMENTS OF STATE LEASES COMMITTED HERETO AND THE REGULATIONS IN RESPECT THERETO TO CONFORM SAID REQUIREMENTS TO THE PROVISIONS OF THIS AGREEMENT. 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, PRODUCING, OR SECONDARY RECOVERY OPERATIONS PERFORMED HEREUNDER UPON ANY TRACT OF UNITIZED LAND WILL BE ACCEPTED AND DEEMED TO BE PERFORMED UPON AND FOR THE BENEFIT OF EACH AND EVERY TRACT OF UNITIZED LAND, AND NO LEASE SHALL BE DEEMED TO EXPIRE BY REASON OF FAILURE TO DRILL OR PRODUCE WELLS SITUATED ON LAND THEREIN EMBRACED.
- (C) SUSPENSION OF DRILLING OR PRODUCING OPERATIONS ON ALL UNITIZED LANDS PURSUANT TO DIRECTION OR CONSENT OF THE COMMISSIONER, OR HIS DULY AUTHORIZED REPRESENTATIVE, SHALL BE DEEMED TO CONSTITUTE SUCH SUSPENSION PURSUANT TO SUCH DIRECTION OR CONSENT AS TO EACH AND EVERY TRACT OF UNITIZED LANDS.
- (D) EACH LEASE, SUBLEASE, UNIT AGREEMENT, OR CONTRACT RELATING TO THE EXPLORATION, DRILLING, DEVELOPMENT, OR OPERATION FOR OIL AND GAS 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.
- (E) TERMINATION OF THIS AGREEMENT SHALL NOT AFFECT ANY LEASE WHICH, PURSUANT TO THE TERMS THEREOF OR ANY APPLICABLE LAWS, SHALL CONTINUE IN FORCE AND EFFECT THEREAFTER.
- (F) 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.
- (G) 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 LAND COMMITTED AND AS TO THE LAND NOT COMMITTED AND THE TERMS OF SUCH LEASES SHALL APPLY SEPARATELY AS TO SUCH SEGREGATED PORTIONS COMMENCING AS OF THE EFFECTIVE DATE HEREOF. PROVIDED, HOWEVER, THAT NOTWITHSTANDING ANY OF THE PROVISIONS OF THIS AGREEMENT TO THE CONTRARY, SUCH LEASE SHALL CONTINUE IN FULL FORCE AND EFFECT BEYOND THE TERM PROVIDED THEREIN AS TO ALL LANDS EMBRACED IN SUCH LEASE IF OIL OR GAS IS, OR HAS HERETOFORE BEEN, DISCOVERED IN PAYING QUANTITIES ON SOME PART OF THE LANDS EMBRACED IN SUCH LEASE COMMITTED TO THIS AGREEMENT, OR, SO LONG AS A PORTION OF THE UNITIZED SUBSTANCES PRODUCED FROM THE UNIT AREA IS, UNDER THE TERMS OF THIS AGREEMENT, ALLOCATED TO THE PORTION OF THE LANDS COVERED BY SUCH LEASE COMMITTED TO THIS AGREEMENT, OR, AT ANY TIME DURING THE TERM HEREOF, AS TO ANY LEASE THAT IS THEN VALID AND SUBSISTING AND UPON WHICH THE LESSEE OR THE UNIT OPERATOR IS THEN ENGAGED IN BONA FIDE DRILLING, REWORKING, OR SECONDARY RECOVERY OPERATIONS ON ANY PART OF THE LANDS EMBRACED IN SUCH LEASE, THEN THE SAME AS TO ALL LANDS EMBRACED THEREIN SHALL REMAIN IN FULL FORCE AND EFFECT SO LONG AS SUCH OPERATIONS ARE 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 OR GAS IN PAYING QUANTITIES IS BEING

PRODUCED FROM ANY PORTION OF SAID LANDS.

20. MATHEMATICAL ERRORS: IT IS HEREBY AGREED BY ALL PARTIES TO THE AGREEMENT THAT UNIT OPERATOR SHALL BE EMPOWERED TO CORRECT ANY MATHEMATICAL ERRORS WHICH MIGHT EXIST IN THE PERTINENT EXHIBITS TO THIS AGREEMENT UPON APPROVAL OF THE COMMISSIONER.

21. 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 SUBJECT HERETO SHALL BE BINDING UPON UNIT OPERATOR UNTIL THE FIRST DAY OF THE CALENDAR MONTH AFTER UNIT OPERATOR IS FURNISHED WITH THE ORIGINAL, PHOTOSTATIC, OR CERTIFIED COPY OF THE INSTRUMENT OF TRANSFER; AND NO ASSIGNMENT OR TRANSFER OF ANY ROYALTY INTEREST SUBJECT THERETO SHALL BE BINDING UPON THE WORKING INTEREST OWNER RESPONSIBLE THEREFOR UNTIL THE FIRST DAY OF THE CALENDAR MONTH AFTER SAID WORKING INTEREST OWNER IS FURNISHED WITH THE ORIGINAL, PHOTOSTATIC, OR CERTIFIED COPY OF THE INSTRUMENT OF TRANSFER.

22. EFFECTIVE DATE AND TERM: THIS AGREEMENT SHALL BECOME BINDING UPON EACH PARTY WHO EXECUTES OR RATIFIES IT AS OF THE DATE OF EXECUTION OR RATIFICATION BY SUCH PARTY AND SHALL BECOME EFFECTIVE AS OF 7:00 O'CLOCK A. M. ON THE FIRST DAY OF THE CALENDAR MONTH NEXT FOLLOWING:

- (A) THE EXECUTION OR RATIFICATION OF THIS AGREEMENT AND THE UNIT OPERATING AGREEMENT BY WORKING INTEREST OWNERS OWNING A COMBINED UNIT PARTICIPATION OF AT LEAST EIGHTY-FIVE PER CENT (85%), AND THE EXECUTION OR RATIFICATION OF THIS AGREEMENT BY ROYALTY OWNERS OWNING A COMBINED INTEREST OF AT LEAST SEVENTY-FIVE PER CENT (75%) OF THE ROYALTY INTEREST IN THE LANDS DESCRIBED IN SECTION 3 OF THIS AGREEMENT;
- (B) THE APPROVAL OF THIS AGREEMENT BY THE COMMISSIONER AND THE COMMISSION;
- (C) THE FILING OF AT LEAST ONE COUNTERPART OF THIS AGREEMENT FOR THE RECORD IN THE RECORDS OF LEA COUNTY, NEW MEXICO, BY UNIT OPERATOR; AND PROVIDED FURTHER, THAT IF (A), (B), AND (C) ARE NOT ACCOMPLISHED ON OR BEFORE MARCH 1, 1965, THIS AGREEMENT SHALL IP SO FACTO TERMINATE ON SAID DATE (HEREINAFTER CALLED "TERMINATION DATE") AND THEREAFTER BE OF NO FURTHER FORCE OR EFFECT, UNLESS PRIOR THERETO THIS AGREEMENT HAS BEEN EXECUTED OR RATIFIED BY WORKING INTEREST OWNERS OWNING A COMBINED UNIT PARTICIPATION OF AT LEAST NINETY PER CENT (90%), AND WORKING INTEREST OWNERS OWNING A COMBINED UNIT PARTICIPATION OF AT LEAST NINETY PER CENT (90%) COMMITTED TO THIS AGREEMENT HAVE DECIDED TO EXTEND SAID TERMINATION DATE FOR A PERIOD NOT TO EXCEED SIX (6) MONTHS. IF SAID TERMINATION DATE IS SO EXTENDED AND (A), (B), AND (C) ARE NOT ACCOMPLISHED ON OR BEFORE SAID EXTENDED TERMINATION DATE, THIS AGREEMENT SHALL IP SO FACTO TERMINATE ON SAID EXTENDED TERMINATION DATE AND THEREAFTER BE OF NO FURTHER FORCE OR EFFECT. FOR THE PURPOSE OF THIS SECTION, OWNERSHIP SHALL BE COMPUTED ON THE BASIS OF UNIT PARTICIPATION. UNIT OPERATOR SHALL, WITHIN THIRTY (30) DAYS AFTER THE EFFECTIVE DATE OF THIS AGREEMENT, FILE FOR THE RECORD IN THE OFFICE OR OFFICES WHERE A COUNTERPART OF THIS AGREEMENT IS RECORDED, A CERTIFICATE TO THE EFFECT THAT THIS AGREEMENT HAS BECOME EFFECTIVE ACCORDING TO ITS TERMS AND STATING FURTHER THE EFFECTIVE DATE.

THE TERM OF THIS AGREEMENT SHALL BE FOR AND DURING THE TIME THAT UNITIZED SUBSTANCES ARE PRODUCED IN PAYING QUANTITIES FROM THE UNIT AREA AND AS LONG

THEREAFTER AS DRILLING, REWORKING, OR OTHER OPERATIONS (INCLUDING SECONDARY RECOVERY) ARE PROSECUTED THEREON WITHOUT CESSATION OF MORE THAN NINETY (90) CONSECUTIVE DAYS, UNLESS SOONER TERMINATED BY WORKING INTEREST OWNERS IN THE MANNER HEREINAFTER PROVIDED. THIS AGREEMENT MAY BE TERMINATED BY WORKING INTEREST OWNERS OF NINETY PER CENT (90%) UNIT PARTICIPATION WHENEVER SUCH WORKING INTEREST OWNERS DETERMINE THAT UNIT OPERATIONS ARE NO LONGER PROFITABLE, FEASIBLE, OR IN THE INTEREST OF CONSERVATION, WITH THE APPROVAL OF THE COMMISSION AND THE COMMISSIONER. NOTICE OF ANY SUCH APPROVAL TO BE GIVEN BY UNIT OPERATOR TO ALL PARTIES HERETO.

UPON TERMINATION OF THIS AGREEMENT, THE FURTHER DEVELOPMENT AND OPERATION OF THE UNIT AREA AS A UNIT SHALL BE ABANDONED, UNIT OPERATIONS SHALL CEASE, AND THEREAFTER THE PARTIES HERETO SHALL BE GOVERNED BY THE TERMS AND PROVISIONS OF THE LEASES AND CONTRACTS AFFECTING THE SEPARATE TRACTS JUST AS IF THE AGREEMENT HAD NEVER BEEN ENTERED INTO.

IF NOT OTHERWISE COVERED BY THE LEASES UNITIZED UNDER THIS AGREEMENT, ROYALTY OWNERS HEREBY GRANT WORKING INTEREST OWNERS A PERIOD OF THREE (3) MONTHS AFTER TERMINATION OF THIS AGREEMENT IN WHICH TO SALVAGE, SELL, DISTRIBUTE, OR OTHERWISE DISPOSE OF THE PERSONAL PROPERTY AND FACILITIES USED IN CONNECTION WITH UNIT OPERATIONS.

23. RATE OF PRODUCTION: ALL PRODUCTION AND THE DISPOSAL THEREOF SHALL BE IN CONFORMITY WITH ALLOCATIONS AND QUOTAS MADE OR FIXED BY THE COMMISSION AND IN CONFORMITY WITH ALL APPLICABLE LAWS AND LAWFUL REGULATIONS.

24. APPEARANCES: UNIT OPERATOR SHALL, AFTER NOTICE TO THE OTHER PARTIES AFFECTED, HAVE THE RIGHT TO APPEAR FOR OR ON BEHALF OF ANY AND ALL INTERESTS AFFECTED HEREBY BEFORE THE COMMISSIONER OF PUBLIC LANDS, AND THE NEW MEXICO OIL CONSERVATION COMMISSION, AND TO APPEAL FROM ORDER ISSUED UNDER THE REGULATIONS OF SAID COMMISSIONER, OR COMMISSION, OR TO APPLY FOR RELIEF FROM ANY OF SAID REGULATIONS OR IN ANY PROCEEDINGS RELATIVE TO OPERATIONS BEFORE THE SAID COMMISSIONER, OR COMMISSION, OR ANY OTHER LEGALLY CONSTITUTED AUTHORITY, PROVIDED, HOWEVER, THAT THE OTHER INTERESTED PARTY SHALL ALSO HAVE THE RIGHT, AT HIS OWN EXPENSE, TO BE HEARD IN ANY SUCH PROCEEDINGS.

25. 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 OR 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 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.

26. NO WAIVER OF CERTAIN RIGHTS: NOTHING CONTAINED IN THIS AGREEMENT SHALL BE CONSTRUED AS A WAIVER BY ANY PARTY HERETO OF THE RIGHT TO ASSERT ANY LEGAL OR CONSTITUTIONAL RIGHT OR DEFENSE AS TO THE VALIDITY OR INVALIDITY OF ANY LAW OF THE STATE 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.

27. 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 ACCIDENT, 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.

28. LOSS OF TITLE: IN THE EVENT TITLE TO ANY TRACT TO UNITIZED LAND SHALL FAIL IN WHOLE OR IN PART AND THE TRUE OWNER CANNOT BE INDUCED TO JOIN THIS UNIT AGREEMENT, SUCH TRACT SHALL BE AUTOMATICALLY REGARDED AS NOT COMMITTED HERETO AND THERE SHALL BE SUCH READJUSTMENT OF FUTURE COSTS AND BENEFITS AS MAY BE RE-

QUIRED 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 STATE LAND OR LEASES, NO PAYMENTS OF FUNDS DUE THE STATE OF NEW MEXICO SHOULD BE WITHHELD, BUT SUCH FUNDS SHALL BE DEPOSITED AS DIRECTED BY THE COMMISSIONER OF PUBLIC LANDS OF THE STATE OF NEW MEXICO, 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. NONJOINDER AND SUBSEQUENT JOINDER: IF THE OWNER OF ANY SUBSTANTIAL INTEREST IN A TRACT WITHIN THE UNIT AREA FAILS OR REFUSES TO SUBSCRIBE OR CONSENT IN WRITING TO THIS AGREEMENT, THE WORKING INTEREST OWNER IN THAT TRACT WHO HAS EXECUTED OR RATIFIED THIS AGREEMENT MAY WITHDRAW SAID TRACT FROM THIS AGREEMENT BY WRITTEN NOTICE TO THE UNIT OPERATOR, OR SUCH TRACT MAY BE INCLUDED IN THE UNIT AREA IF THE SAME CAN BE AND IS QUALIFIED AS PROVIDED IN SECTION 11 HEREOF, TRACTS QUALIFIED FOR UNIT PARTICIPATION. SUCH WITHDRAWAL AS ABOVE PROVIDED, SHALL, WITHOUT FURTHER ACTION, ALSO OPERATE TO WITHDRAW ALL ROYALTY INTEREST IN SUCH TRACT OR TRACTS THERETOFORE COMMITTED HERETO. JOINDER IN THE UNIT AGREEMENT BY A WORKING INTEREST OWNER, AT ANY TIME, MUST BE ACCOMPANIED BY APPROPRIATE JOINDER TO THE UNIT OPERATING AGREEMENT IN ORDER FOR THE INTEREST TO BE REGARDED AS EFFECTIVELY COMMITTED TO THIS UNIT AGREEMENT.

ANY OIL OR GAS INTEREST IN THE UNITIZED FORMATION IN LANDS WITHIN THE UNIT AREA NOT COMMITTED HERETO PRIOR TO SUBMISSION OF THIS AGREEMENT TO THE COMMISSIONER FOR FINAL APPROVAL, MAY THEREAFTER BE COMMITTED HERETO UPON COMPLIANCE WITH THE APPLICABLE PROVISIONS OF SECTION 11 HEREOF, AT ANY TIME UP TO THE EFFECTIVE DATE HEREOF AND FOR A PERIOD OF SIX (6) MONTHS THEREAFTER, ON THE SAME BASIS OF PARTICIPATION AS PROVIDED FOR IN SECTION 11 BY THE OWNER OR OWNERS THEREOF SUBSCRIBING OR CONSENTING IN WRITING TO THIS AGREEMENT AND, IF THE INTEREST IS A WORKING INTEREST, BY THE OWNER OF SUCH INTEREST SUBSCRIBING ALSO TO THE UNIT OPERATING AGREEMENT.

IT IS UNDERSTOOD AND AGREED, HOWEVER, THAT AFTER SIX (6) MONTHS FROM THE EFFECTIVE DATE HEREOF, THE RIGHT OF SUBSEQUENT JOINDER AS PROVIDED IN THIS SECTION SHALL BE SUBJECT TO SUCH REQUIREMENTS OR APPROVALS AND ON SUCH BASIS AS MAY BE AGREED UPON BY NINETY PER CENT (90%) OF THE WORKING INTEREST OWNERS. SUCH JOINDER BY A ROYALTY OWNER MUST BE EVIDENCED BY HIS EXECUTION OR RATIFICATION OF THIS UNIT AGREEMENT AND MUST BE CONSENTED TO IN WRITING BY THE WORKING INTEREST OWNER RESPONSIBLE FOR THE PAYMENT OF ANY BENEFITS THAT MAY ACCRUE HEREUNDER ON BEHALF OF SUCH ROYALTY OWNER. EXCEPT AS MAY OTHERWISE HEREIN BE PROVIDED, SUBSEQUENT JOINDER TO THIS AGREEMENT SHALL BE EFFECTIVE AT 7:00 O'CLOCK A. M. AS OF THE FIRST DAY OF THE MONTH FOLLOWING THE FILING WITH THE COMMISSION AND THE COMMISSIONER OF DULY EXECUTED COUNTERPART OF ALL OR ANY PAPERS NECESSARY TO ESTABLISH EFFECTIVE COMMITMENT OF ANY TRACT TO THIS AGREEMENT AND APPROVED BY 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 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.

31. TAXES: EACH PARTY HERETO SHALL, FOR ITS OWN ACCOUNT, RENDER AND PAY ITS SHARE OF ANY TAXES LEVIED AGAINST OR MEASURED BY THE AMOUNT OR VALUE OF THE UNITIZED SUBSTANCES PRODUCED FROM THE UNIT AREA; PROVIDED, HOWEVER, THAT IF IT IS REQUIRED OR IF IT BE DETERMINED THAT THE UNIT OPERATOR OR THE SEVERAL WORKING INTEREST OWNERS MUST PAY OR ADVANCE SAID TAXES FOR THE ACCOUNT OF THE PARTIES HERETO, IT IS HEREBY EXPRESSLY AGREED THAT THE PARTIES SO PAYING OR ADVANCING SAID TAXES SHALL BE REIMBURSED THEREFOR BY THE PARTIES HERETO, INCLUDING ROYALTY

OWNERS, WHO MAY BE RESPONSIBLE FOR THE TAXES ON THEIR RESPECTIVE ALLOCATED SHARE OF THE UNITIZED SUBSTANCES. NO SUCH TAXES SHALL BE CHARGED TO THE STATE OF NEW MEXICO OR TO ANY LESSOR WHO HAS A CONTRACT WITH HIS LESSEE WHICH REQUIRED THE LESSEE TO PAY SUCH TAXES.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE CAUSED THIS AGREEMENT TO BE EXECUTED AND HAVE SET OPPOSITE THEIR RESPECTIVE NAMES, THE DATE OF EXECUTION.

<u>NAME</u>	<u>DATE SIGNED</u>	<u>ATTEST, IF A CORPORATION OR WITNESS, IF AN INDIVIDUAL</u>
-------------	--------------------	--

SUNSET INTERNATIONAL PETROLEUM CORPORATION

ATTEST:

By _____
VICE PRESIDENT

By _____
SECRETARY

Address _____

CARPER DRILLING COMPANY, INC.

ATTEST:

By _____
TITLE

By _____
SECRETARY

Address _____

PHILLIPS PETROLEUM COMPANY

ATTEST:

By _____
TITLE

By _____
SECRETARY

Address _____

INDIVIDUAL

WITNESS:

CHARLES P. MILLER

JOINT OVER-RIDING ROYALTY INTERESTS

WITNESS:

AND
CHARLES P. MILLER

HIS WIFE

STATE OF _____)
COUNTY OF _____)

SS

CORPORATION ACKNOWLEDGEMENT

ON THIS _____ DAY OF _____, 1964, BEFORE ME APPEARED _____, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY SWORN, DID SAY THAT HE IS THE _____ OF _____, A CORPORATION, AND THAT THE SEAL AFFIXED TO THE SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRUMENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD OF DIRECTORS, AND SAID _____ ACKNOWLEDGED SAID INSTRUMENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS _____ DAY OF _____, 1964.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____ }
COUNTY OF _____ } SS

STATE OF _____ }
COUNTY OF _____ } SS

CORPORATION ACKNOWLEDGEMENT

ON THIS _____ DAY OF _____, 1964, BEFORE ME APPEARED

_____, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY
SWORN, DID SAY THAT HE IS THE _____ OF _____
_____, A CORPORATION, AND THAT THE SEAL AFFIXED
TO SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRUMENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD OF DIRECTORS, AND SAID _____ ACKNOWLEDGED SAID INSTRUMENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS _____ DAY OF _____, 1964

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____ }
COUNTY OF _____ } SS

STATE OF _____ }
COUNTY OF _____ } SS

CORPORATION ACKNOWLEDGEMENT

ON THIS _____ DAY OF _____, 1964, BEFORE ME APPEARED

_____, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY
SWORN, DID SAY THAT HE IS THE _____ OF _____
_____, A CORPORATION, AND THAT THE SEAL AFFIXED
TO SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRUMENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD OF DIRECTORS, AND SAID _____ ACKNOWLEDGED SAID INSTRUMENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS _____ DAY OF _____, 1964

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____ }
COUNTY OF _____ } SS

INDIVIDUAL ACKNOWLEDGEMENT

THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME THIS _____ DAY
OF _____, 1964, BY _____

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

JOINT ACKNOWLEDGEMENT
(HUSBAND AND WIFE)

THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME THIS _____ DAY
OF _____, 1964, BY _____ AND _____
HIS WIFE.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____ }
COUNTY OF _____ }

SS

Insert
Color Page/Photo
Here

EXHIBIT "B"
LEASEHOLD INFORMATION WITH WORKING INTEREST PARTICIPATION
MAL-GRA UNIT
MALJAMAR FIELD
LEA COUNTY, NEW MEXICO

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State of New Mexico
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.
COMMISSIONER

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

(505) 827-5760
FAX (505) 827-5766

April 15, 1994

Rodey, Dickason, Sloan, Akin & Robb, P.A.
P. O. Box 1357
Santa Fe, New Mexico 87504-1357

Attn: Mr. Paul A. Cooter

Re: Voluntary Termination
Mal-Gra Unit
Lea County, New Mexico

Dear Mr. Cooter:

The New Mexico Oil Conservation Division by their Order No. R-10093 approved The Wiser Oil Company's Caprock Maljamar Unit on April 5, 1994. As a condition in approving the Caprock Maljamar Unit, which overlies the Mal-Gra Unit, subsection 9 of the above mentioned OCD Order terminated the Mal-Gra Unit and also required that The Wiser Oil Company obtain approval for such termination from the Commissioner of Public Lands for the State of New Mexico.

This office is in receipt of your letter of April 12, 1994, wherein on behalf of The Wiser Oil Company, you have requested our approval to voluntarily terminate the Mal-Gra Unit, Lea County, New Mexico. It is our understanding that The Wiser Oil Company, as the current unit operator of the Mal-Gra Unit, is also the Working Interest Owner of (100%) of all Tracts within the Unit Area.

In view of the above, please be advised that the Commissioner of Public Lands has this date terminated the Mal-Gra Unit effective May 1, 1994. Please advise all interested parties of this action.

If you have any questions, or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY B. POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

BY: *Floyd O. Prando*
FLOYD O. PRANDO, Director
Oil/Gas and Minerals Division
(505) 827-5744

RBP/FOP/pm

cc: Reader File

OCD-Attn: Mr. Roy Johnson

TRD- Attn: Mr. Mike Holden



State of New Mexico
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.
COMMISSIONER

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

(505) 827-5760
FAX (505) 827-5766

April 15, 1994

Rodey, Dickason, Sloan, Akin & Robb, P.A.
P. O. Box 1357
Santa Fe, New Mexico 87504-1357

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Lea County, New Mexico

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Very truly yours,

RAY B. POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

BY:

Floyd O. Prando

FLOYD O. PRANDO, Director
Oil/Gas and Minerals Division
(505) 827-5744

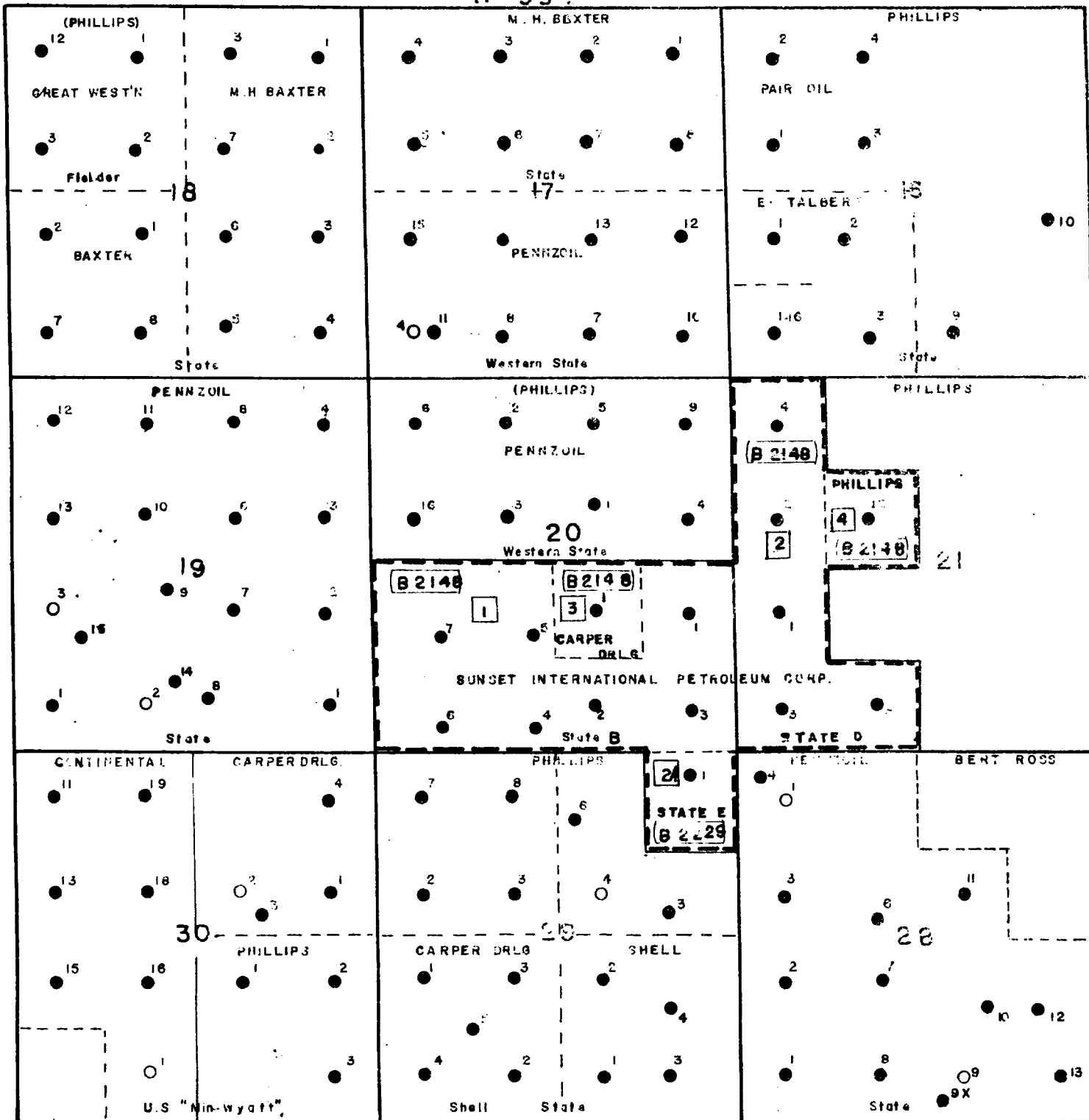
RBP/FOP/pm

cc: Reader File

OCD-Attn: Mr. Roy Johnson

TRD- Attn: Mr. Mike Holden

R 33 F



SCALE 1" = 2000'

TERMINATED
EFFECTIVE DATE 5-1-94
APPROVAL DATE 4-15-94

EXHIBIT "A"
MAL GRA UNIT
LEA COUNTY, NEW MEXICO
--- MAL GRA UNIT BOUNDARY
□ TRACT NUMBER
▭ NEW MEXICO LEASE NUMBER

EXHIBIT "B"
LEASEHOLD INFORMATION WITH WORKING INTEREST PARTICIPATION
MAL-GRA UNIT
MALJAMAR FIELD
LEA COUNTY, NEW MEXICO

TRACT No.	LEASE NAME	DESCRIPTION OF LAND	NUMBER ACRES	NEW MEXICO STATE NO.	DATE	BASIC ROYALTY	LESSEE OF RECORDS	OWNERS AND AMOUNT	WORKING INTEREST OWNER & AMOUNT	TRACT PARTICIPATION IN UNIT
1	STATE B	SW/4, S/2SE/4 & NE/4 SE/4 SEC. 20	280	B-2148-0	9-11-33	12 1/2%	PHILLIPS PETR. CO. 1-11-65	PHILLIPS PETR. CO. 5.46875%	SUNSET INT'L PETR. CORP. 93.75% CHARLES P. MILLER 6.25%	.360445 .009511
2	STATE D	W/2 W/2 & SE/4 SW/4 SEC. 21	200	B-2148-0	9-11-33	12 1/2%	PHILLIPS PETR. CO. 1-11-65	PHILLIPS PETR. CO. 5.46875%	SUNSET INT'L PETR. CORP. 100.00%	.209421 .007946
3	STATE E	NE/4 NE/4 SEC. 29	40	B-2229-0	11-10-33	12 1/2%	PHILLIPS PETR. CO. 1-11-65	PHILLIPS PETR. CO. 5.46875%	SUNSET INT'L PETR. CORP. 100.00%	.068429 .015622
4	PHILLIPS STATE	NW/4 SE/4 SEC. 20	40	B-2148-0	9-11-33	12-1/2%	PHILLIPS PETR. CO. 1-11-65	PHILLIPS PETR. CO. 5.46875%	CARPER DRILLING CO. INC. 100.00%	.068429 .015622
5	LEA-MEX	SE/4 NW/4 SEC. 21	40	B-2148-0	9-11-33	12-1/2%	PHILLIPS PETR. CO. 1-11-65	PHILLIPS PETR. CO. 5.46875%	PHILLIPS PETR. CO. 100.00%	.068429 .015622
TOTAL			600							.700000 .300000

TERMINATED
EFFECTIVE DATE 5-1-94
APPROVAL DATE 4-15-94

Unit Name MAL-GRA UNIT - WATERFLOOD
Operator SUNSET INTERNATIONAL PETROLEUM CORPORATION
County IEA

1-21-65

DATE	OCC CASE NO. 3102	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TEI
APPROVED	OCC ORDER NO. R-2768							
Commissioner:	OCC: 9-16-64	Feb. 1, 1965	600.00	600.00	-0-	-0-	-0-	so 1 on
January 20, 1965								

UNIT AREA

TOWNSHIP 17 SOUTH, RANGE 33 EAST, NEW MEXICO PRINCIPLE MERIDIAN

- Section 20: S/2
- Section 21: W/2W/2, SE/4SW/4, SE/4NW/4
- Section 29: NE/4NE/4

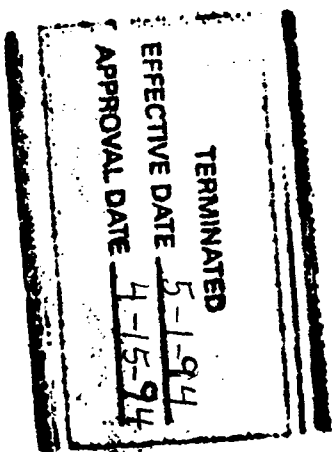
TERMINATED
EFFECTIVE DATE 5-1-94
APPROVAL DATE 4-15-94

TERMINATED
EFFECTIVE DATE _____
APPROVAL DATE _____

Unit Name MAL-GRA UNIT - WATERFLOOD
Operator SUNSET INTERNATIONAL PETROLEUM CORPORATION
County LEA

1-21-65

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
1	B-2148	C.S.	20	17S	33E	SW/4,S/2SE/4,NE/4SE/4	1-11-65	280.00		PHILLIPS PETROLEUM COMPANY
2	B-2148	C.S.	21	17S	33E	W/2W/2,SE/4SW/4	1-11-65	200.00		PHILLIPS PETROLEUM COMPANY
2A	B-2229	C.S.	29	17S	33E	NE/4NE/4	1-11-65	40.00		PHILLIPS PETROLEUM COMPANY
3	B-2148	C.S.	20	17S	33E	NW/4SE/4	1-11-65	40.00		PHILLIPS PETROLEUM COMPANY
4	B-2148	C.S.	21	17S	33E	SE/4NW/4	1-11-65	40.00		PHILLIPS PETROLEUM COMPANY



SUNSET INTERNATIONAL PETROLEUM CORPORATION

TWO-O-ONE WALL BUILDING • SUITE 308
MIDLAND, TEXAS

January 19, 1965

1965 JAN 20 AM 11

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico

Re: Mal-Gra Unit
Maljamar Pool
Lea county, New Mexico

Attention: Mr. Dan S. Nutter

Gentlemen:

Mr. Frank Irby, State Engineer office, Santa Fe, has informed us that he would have no objections to our Mal-Gra Unit plan of operation if we would make sure that our injected water is confined to the Grayburg lime. To do this, he has requested that we run a packer on the bottom joint of plastic lined tubing and set the packer in the casing shoe joint of each injection well, in the injection wells that are completed in open hole. In the injection wells that are completed in cased holes, the packers are to be set immediately above the upper-most perforations.

This is to advise that we will comply and that each and every injection well will be equipped in this manner.

Yours very truly,



Robert W. Arrendiell
Production Manager
West Texas Division

RWA:mm

cc: Commission of State Lands
Santa Fe, New Mexico

Mr. F. J. Karmelich
Beverly Hills, Calif.

SUNSET INTERNATIONAL PETROLEUM CORPORATION
TWO-O-ONE WALL BUILDING • SUITE 308
MIDLAND, TEXAS

January 19, 1965

1965 JAN 20 AM 11:11

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico

Re: Mal-Gra Unit
Lea county, New Mexico

Attention: Mr. D. S. Nutter

Gentlemen:

We have now obtained 100% of the Working Interest Owners approval in our Mal-Gra Unit and we are attempting cause the effective date to be February 1, 1965.

Enclosed are the following:

Two copies of the Unit Agreement, one a fully executed original, the other a photo-copy.

One copy of the Unit Operating Agreement, fully executed original.

One copy of our water injection plant design.

Our plan of operation is to build a water injection plant near the center of the SE/4, section 20-17S-33E. We will inject approximately 400 bbl of water per day at 3000 PSI into the Sunset State B-1, B-4, and B-7, Carper Phillips State 1, Sunset State D-1, D-4, and D-5, and the Phillips Leamex 12.

Enclosed is a carbon copy of our letter to the Commissioner of State Lands requesting his certificate of approval.

Yours very truly,



Robert W. Arrendiell
Production Manager
West Texas Division

RWA:mm

cc: Commissioner of State Lands
Santa Fe, New Mexico

Mr. F. J. Karmelich
Beverly Hills, Calif.

3102

MAL-1-11

January 19, 1965

'65 JAN 20 AM

Commissioner of Public Lands
State of New Mexico
P. O. Box 791
Santa Fe, New Mexico

Re: Request for Approval
Mal-Gra Unit
Lea county, New Mexico

Attention: Mrs. Marion Rhea

Gentlemen:

We have now obtained 100% of the Working Interest Owners signatures and we are now ready to from our Mal-Gra Unit. With your approval we will proceed.

Enclosed are the following:

- One copy of the Unit Agreement, fully executed original.
- One copy of the Unit Agreement , signature photo-copied.
- One copy of the Unit Operating Agreement, fully executed original.
- One copy of our water injection plant plan.

The following lands have been included in our proposed unit:

- Tract 1 (Sunset) State B Lease, State B-2148, SW/4, S/2 SE/4, & NE/4 SE/4, Section 20-175-33E.
- Tract 2 (Sunset) State D Lease, State B-2148, W/2 W/2, SE/4, SE/4, Section 21-175-33E and State B Lease, State B-2229, NE/4 NE/4 Section 20-175-33E.
- Tract 3 (Carper) Phillips State Lease, State B-2148, NW/4 SE/4, Section 20-175-33E.
- Tract 4 (Phillips) Leamex Lease, State B-2148, SE/4 NW/4 Section 21-175-33E.

Working interests, acreage, royalty are exactly as shown on Exhibit B, Unit Agreement.

Cont. on page 2

Plan of Operation:

We plan to inject 400 bbl of water per day into the Sunset State B-7, B-4, B-3, Carper Phillips State #1, Sunset State B-4, B-1, B-5 and the Phillips Lease 12. The injection pressure is to be 3000 PSI. We will build a water injection pump station near the center of the SE/4, Section 20. We plan to lay separate injection lines to each of the injection wells and place all of the water injection well meters, fitters, and gauges in the building that houses the high pressure pumps.

Copies of this information are being forwarded to the New Mexico Oil Conservation Commission at this time.

We are making every effort to cause the effective date to be February 1, 1965. We would appreciate an early approval if it will not be inconvenient. As soon as we receive your certificate of approval, we will file these documents of record, Lea county, New Mexico.

Thank you.

Yours very truly,



Robert W. Arrendiell
Production Manager
West Texas Division

RWA:sm

cc: NMOCC, Santa Fe, N.M.
Mr. F. J. Karmelich, Beverly Hills, Calif.

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO


MAL-GRA UNIT
LEA COUNTY, NEW MEXICO

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 August 1, 1964, 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, and 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 20th day of January, 19 65.


COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

NOTICE 000

1959 AUG 29

**UNIT OPERATING
AGREEMENT**
MAL-GRA UNIT
MALJAMAR FIELD
LEA COUNTY, NEW MEXICO

1000000

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UNIT OPERATING AGREEMENT

MAL-GRA UNIT

MALJAMAR FIELD

LEA COUNTY, NEW MEXICO

INDEX

UNIT OPERATING AGREEMENT

MAL-GRA UNIT

MALJAMAR FIELD

LEA COUNTY, NEW MEXICO

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- EXHIBIT "B" LEASEHOLD INFORMATION WITH WORKING INTEREST PARTICIPATION.
- EXHIBIT "C" SHOWING REMAINING PRIMARY, ULTIMATE PRIMARY, CURRENT PRODUCTION, AND PARTICIPATION IN UNIT TRACTS.
- EXHIBIT "D" ACCOUNTING PROCEDURE. IF THERE IS ANY CONFLICT BETWEEN THIS AGREEMENT AND EXHIBIT D THIS AGREEMENT SHALL GOVERN.
- EXHIBIT "E" INSURANCE PROVISIONS APPLICABLE TO THE DEVELOPMENT AND OPERATION OF THE UNIT AREA.

UNIT OPERATING AGREEMENT

MAL-GRA UNIT

LEA COUNTY, NEW MEXICO

THIS AGREEMENT, ENTERED INTO AS OF THE FIRST DAY OF AUGUST, 1964, BY THE PARTIES WHO HAVE SIGNED THE ORIGINAL OF THIS INSTRUMENT, A COUNTERPART THEREOF, OR OTHER INSTRUMENT AGREEING TO BE BOUND BY THE PROVISIONS HEREOF;

W I T N E S S E T H:

WHEREAS, THE PARTIES HERETO AS WORKING INTEREST OWNERS HAVE EXECUTED, AS OF THE DATE HEREOF, AN AGREEMENT ENTITLED, "UNIT AGREEMENT, MAL-GRA UNIT LEA COUNTY, NEW MEXICO", HEREIN REFERRED TO AS "UNIT AGREEMENT", WHICH, AMONG OTHER THINGS, PROVIDES FOR A SEPARATE AGREEMENT TO BE ENTERED INTO BY WORKING INTEREST OWNERS TO PROVIDE FOR THE DEVELOPMENT AND OPERATION OF THE UNIT AREA AS THEREIN DEFINED;

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL AGREEMENTS HEREIN SET FORTH, IT IS AGREED AS FOLLOWS:

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 CONFIRMATION OF UNIT AGREEMENT. THE UNIT AGREEMENT IS HEREBY CONFIRMED AND BY REFERENCE MADE A PART OF THIS AGREEMENT. THE DEFINITIONS IN THE UNIT AGREEMENT ARE ADOPTED FOR ALL PURPOSES OF THIS AGREEMENT. IF THERE IS ANY CONFLICT BETWEEN THE UNIT AGREEMENT AND THIS AGREEMENT, THE UNIT AGREEMENT SHALL GOVERN.

ARTICLE 2

EXHIBITS

2.1 EXHIBITS. THE FOLLOWING EXHIBITS ARE INCORPORATED HEREIN BY REFERENCE:

2.1.1 EXHIBIT "A" MAP OF UNIT AREA.

2.1.2 EXHIBIT "B" LEASEHOLD INFORMATION WITH WORKING INTEREST PARTICIPATION.

2.1.3 EXHIBIT "C" SHOWING REMAINING PRIMARY, ULTIMATE PRIMARY, CURRENT PRODUCTION, AND PARTICIPATION IN UNIT TRACTS.

2.1.4 EXHIBIT "D" ACCOUNTING PROCEDURE. IF THERE IS ANY CONFLICT BETWEEN THIS AGREEMENT AND EXHIBIT D, THIS AGREEMENT SHALL GOVERN.

2.1.5 EXHIBIT "E" INSURANCE PROVISIONS APPLICABLE TO THE DEVELOPMENT AND OPERATION OF THE UNIT AREA.

2.2 REVISION OF EXHIBITS. 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 COMMISSIONER.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 OVER-ALL SUPERVISION. WORKING INTEREST OWNERS SHALL EXERCISE OVER-ALL SUPERVISION AND CONTROL OF ALL MATTERS PERTAINING TO UNIT OPERATIONS PURSUANT TO THIS AGREEMENT AND THE UNIT AGREEMENT. IN THE EXERCISE OF SUCH AUTHORITY, EACH WORKING INTEREST OWNER SHALL ACT SOLELY IN ITS OWN BEHALF IN THE CAPACITY OF AN INDIVIDUAL OWNER AND NOT ON BEHALF OF THE OWNERS AS AN ENTIRETY.

3.2 SPECIFIC AUTHORITIES AND DUTIES. THE MATTERS WITH RESPECT TO WHICH THE WORKING INTEREST OWNERS SHALL DECIDE AND TAKE ACTION SHALL INCLUDE, BUT NOT BE LIMITED TO, THE FOLLOWING:

3.2.1 METHOD OF OPERATION. THE METHOD OF OPERATION, INCLUDING ANY TYPE OF PRESSURE MAINTENANCE, SECONDARY RECOVERY, OR OTHER RECOVERY PROGRAM TO BE EMPLOYED.

3.2.2 DRILLING OF WELLS. THE DRILLING OF ANY WELL WHETHER FOR PRODUCTION OF UNITIZED SUBSTANCES, FOR USE AS AN INJECTION WELL, OR FOR OTHER PURPOSES RELATED TO UNIT OPERATIONS.

3.2.3 WELL RECOMPLETIONS AND CHANGE OF STATUS. THE RECOMPLETION, ABANDONMENT, OR CHANGE OF STATUS OF ANY WELL, OR THE USE OF ANY WELL FOR INJECTION OR OTHER PURPOSES.

3.2.4 EXPENDITURES. THE MAKING OF ANY SINGLE EXPENDITURE IN EXCESS OF TWENTY-FIVE HUNDRED DOLLARS (\$2,500.00); PROVIDED THAT, APPROVAL BY WORKING INTEREST OWNERS OF THE DRILLING, REWORKING, DEEPENING, OR PLUGGING BACK OF ANY WELL SHALL INCLUDE APPROVAL OF ALL NECESSARY EXPENDITURES REQUIRED THEREFOR, AND FOR COMPLETING, TESTING, AND EQUIPPING THE SAME, INCLUDING NECESSARY FLOW LINES, SEPARATORS, AND LEASE TANKAGE.

3.2.5 DISPOSITION OF UNIT EQUIPMENT. THE SELLING OR OTHERWISE DISPOSING OF ANY MAJOR ITEM OF SURPLUS UNIT EQUIPMENT, IF THE CURRENT LIST PRICE OF NEW EQUIPMENT SIMILAR THERETO IS ONE THOUSAND DOLLARS (\$1,000.00) OR MORE.

3.2.6 APPEARANCE BEFORE A COURT OR REGULATORY AGENCY. THE DESIGNATING OF A REPRESENTATIVE TO APPEAR BEFORE ANY COURT OR REGULATORY AGENCY IN MATTERS PERTAINING TO UNIT OPERATIONS; PROVIDED THAT, SUCH DESIGNATION SHALL NOT PREVENT ANY WORKING INTEREST

OWNER FROM APPEARING IN PERSON AT ITS OWN EXPENSE OR FROM DESIGNATING ANOTHER REPRESENTATIVE IN ITS OWN BEHALF.

3.2.7 AUDITS. THE AUDITING OF THE ACCOUNTS OF UNIT OPERATOR PERTAINING TO UNIT OPERATIONS HEREUNDER; PROVIDED THAT, THE AUDITS SHALL

- (A) NOT BE CONDUCTED MORE THAN ONCE EACH YEAR EXCEPT UPON THE REGISTRATION OR REMOVAL OF UNIT OPERATOR,
- (B) BE MADE AT THE EXPENSE OF ALL WORKING INTEREST OWNERS OTHER THAN THE WORKING INTEREST OWNER DESIGNATED AS UNIT OPERATOR UNLESS SUCH AUDIT IS CONDUCTED AT THE SPECIFIC INSTANCE AND REQUEST OF THE UNIT OPERATOR, IN WHICH LATTER EVENT THE SAME SHALL BE MADE AT THE EXPENSE OF ALL WORKING INTEREST OWNERS INCLUDING INTEREST OWNER DESIGNATED AS UNIT OPERATOR, AND
- (C) BE MADE UPON NOT LESS THAN THIRTY (30) DAYS WRITTEN NOTICE TO THE UNIT OPERATOR.

3.2.8 INVENTORIES. THE TAKING OF PERIODIC INVENTORIES UNDER THE TERMS OF EXHIBIT D.

3.2.9. TECHNICAL SERVICES. THE AUTHORIZING OF CHARGES TO THE JOINT ACCOUNT FOR SERVICES BY CONSULTANTS OR UNIT OPERATOR'S TECHNICAL PERSONNEL NOT COVERED BY THE OVERHEAD CHARGES PROVIDED BY EXHIBIT D.

3.2.10 ASSIGNMENTS TO COMMITTEES. THE APPOINTMENT OF COMMITTEES TO STUDY ANY PROBLEMS IN CONNECTION WITH UNIT OPERATIONS.

3.2.11 THE REMOVAL OF UNIT OPERATOR AND THE SELECTION OF A SUCCESSOR.

3.2.12 THE ENLARGEMENT OF THE UNIT AREA.

3.2.13 THE ADJUSTMENT AND READJUSTMENT OF INVESTMENTS.

3.2.14 THE TERMINATION OF THE UNIT AGREEMENT.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 DESIGNATION OF REPRESENTATIVES. EACH WORKING INTEREST OWNER SHALL IN WRITING INFORM UNIT OPERATOR OF THE NAMES AND ADDRESSES OF THE REPRESENTATIVE AND ALTERNATE WHO ARE AUTHORIZED TO REPRESENT AND BIND SUCH WORKING INTEREST OWNER WITH RESPECT TO UNIT OPERATIONS. THE REPRESENTATIVE OR ALTERNATE MAY BE CHANGED FROM TIME TO TIME BY WRITTEN NOTICE TO UNIT OPERATOR.

4.2 MEETINGS. ALL MEETINGS OF WORKING INTEREST OWNERS SHALL BE CALLED BY UNIT OPERATOR UPON ITS OWN MOTION OR AT THE REQUEST OF ONE OR MORE WORKING INTEREST OWNERS HAVING A TOTAL UNIT PARTICIPATION OF NOT LESS THAN TEN PER CENT (10%). NO MEETING SHALL BE CALLED ON LESS THAN FOURTEEN (14) DAYS ADVANCE WRITTEN NOTICE, WITH AGENDA FOR THE MEETING ATTACHED. WORKING INTEREST OWNERS WHO ATTEND THE MEETING SHALL NOT BE PREVENTED FROM AMENDING ITEMS INCLUDED IN THE AGENDA OR FROM DECIDING THE AMENDED ITEM OR OTHER ITEMS PRESENTED AT THE MEETING. THE REPRESENTATIVE OF UNIT OPERATOR SHALL BE CHAIRMAN OF EACH MEETING.

4.3 VOTING PROCEDURE. WORKING INTEREST OWNERS SHALL DECIDE ALL MATTERS COMING BEFORE THEM AS FOLLOWS:

4.3.1 VOTING INTEREST. EACH WORKING INTEREST OWNER SHALL HAVE A VOTING INTEREST EQUAL TO ITS UNIT PARTICIPATION.

4.3.2 VOTE REQUIRED - GENERALLY. UNLESS OTHERWISE PROVIDED HEREIN OR IN THE UNIT AGREEMENT, ALL MATTERS SHALL BE DECIDED BY AN AFFIRMATIVE VOTE OF SIXTY PER CENT (60%) OR MORE VOTING INTEREST; PROVIDED THAT, SHOULD ANY ONE WORKING INTEREST OWNER HAVE MORE THAN FORTY PER CENT (40%) VOTING INTEREST, ITS VOTE MUST BE SUPPORTED BY THE VOTE OF TWO OR MORE WORKING INTEREST OWNERS HAVING A COMBINED VOTING INTEREST OF AT LEAST FIVE PER CENT (5%).

4.3.3 VOTE AT MEETING BY NONATTENDING WORKING INTEREST OWNER.

ANY WORKING INTEREST OWNER WHO IS NOT REPRESENTED AT A MEETING MAY VOTE BY LETTER OR TELEGRAM ADDRESSED TO THE REPRESENTATIVE OF THE UNIT OPERATOR IF ITS VOTE IS RECEIVED PRIOR TO THE VOTE ON THE ITEM. SUCH VOTE SHALL NOT BE COUNTED WITH RESPECT TO ANY ITEM ON THE AGENDA WHICH IS AMENDED AT THE MEETING.

4.3.4 POLL VOTES. WORKING INTEREST OWNERS MAY VOTE ON AND DECIDE, BY LETTER OR TELEGRAM, ANY MATTER SUBMITTED IN WRITING TO WORKING INTEREST OWNERS, IF NO MEETING IS REQUESTED, AS PROVIDED IN SECTION 4.2, WITHIN SEVEN (7) DAYS AFTER THE PROPOSAL IS SENT TO WORKING INTEREST OWNERS. UNIT OPERATOR WILL GIVE PROMPT NOTICE OF THE RESULTS OF VOTING TO ALL WORKING INTEREST OWNERS.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 RESERVATION OF RIGHTS. WORKING INTEREST OWNERS SEVERALLY RESERVE TO THEMSELVES ALL THEIR RIGHTS, EXCEPT AS OTHERWISE PROVIDED IN THIS AGREEMENT AND THE UNIT AGREEMENT.

5.2 Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights:

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

ARTICLE 6

UNIT OPERATOR

6.1 Initial Unit Operator. SUNSET INTERNATIONAL PETROLEUM CORPORATION is hereby designated as Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time. Working Interest Owners may remove Unit Operator at any time by the affirmative vote of at least eighty-five per cent (85%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of six (6) months after the resignation or discharge, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period. 7/25

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners on the basis of Unit Participation. The successor Unit Operator shall be selected by the affirmative vote of at least seventy-five per cent (75%) of the voting interests remaining after excluding the voting interest of the Unit Operator that was removed, if the Unit Operator that is removed fails to vote or votes only to succeed itself. C.W.C. Jue
C.P.M.
J.M.
WJ

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 WORKMANLIKE CONDUCT. UNIT OPERATOR SHALL CONDUCT UNIT OPERATIONS IN A GOOD AND WORKMANLIKE MANNER AS WOULD A PRUDENT OPERATOR UNDER THE SAME OR SIMILAR CIRCUMSTANCES. UNIT OPERATOR SHALL FREELY CONSULT WITH WORKING INTEREST OWNERS AND KEEP THEM INFORMED OF ALL MATTERS WHICH UNIT OPERATOR, IN THE EXERCISE OF ITS BEST JUDGMENT, CONSIDERS IMPORTANT. UNIT OPERATOR SHALL NOT BE LIABLE TO WORKING INTEREST OWNERS FOR DAMAGES, UNLESS SUCH DAMAGES RESULT FROM ITS GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

7.3 LIENS AND ENCUMBRANCES. UNIT OPERATOR SHALL ENDEAVOR TO KEEP THE LANDS AND LEASES IN THE UNIT AREA FREE FROM ALL LIENS AND ENCUMBRANCES OCCASIONED BY UNIT OPERATIONS, EXCEPT THE LIEN OF UNIT OPERATOR GRANTED HEREUNDER.

7.4 EMPLOYEES. THE NUMBER OF EMPLOYEES USED BY UNIT OPERATOR IN CONDUCTING UNIT OPERATIONS, THEIR SELECTION, HOURS OF LABOR, AND COMPENSATION SHALL BE DETERMINED BY UNIT OPERATOR. SUCH EMPLOYEES SHALL BE THE EMPLOYEES OF UNIT OPERATOR.

7.5 RECORDS. UNIT OPERATOR SHALL KEEP CORRECT BOOKS, ACCOUNTS, AND RECORDS OF UNIT OPERATIONS.

7.6 REPORTS TO WORKING INTEREST OWNERS. UNIT OPERATOR SHALL FURNISH TO WORKING INTEREST OWNERS PERIODIC REPORTS OF UNIT OPERATIONS.

7.7 REPORTS TO GOVERNMENTAL AUTHORITIES. UNIT OPERATOR SHALL MAKE ALL REPORTS TO GOVERNMENTAL AUTHORITIES THAT IT HAS THE DUTY TO MAKE AS UNIT OPERATOR.

7.8 ENGINEERING AND GEOLOGICAL INFORMATION. UNIT OPERATOR SHALL FURNISH TO A WORKING INTEREST OWNER, UPON WRITTEN REQUEST, A COPY OF THE LOG AND OTHER ENGINEERING AND GEOLOGICAL DATA PERTAINING TO WELLS DRILLED FOR UNIT OPERATIONS.

7.9 EXPENDITURES. UNIT OPERATOR IS AUTHORIZED TO MAKE SINGLE EXPENDITURES NOT IN EXCESS OF TWENTY FIVE HUNDRED DOLLARS (\$2,500.00) WITHOUT PRIOR APPROVAL OF WORKING INTEREST OWNERS. IF AN EMERGENCY OCCURS, UNIT OPERATOR MAY IMMEDIATELY MAKE OR INCUR SUCH EXPENDITURES AS IN ITS OPINION ARE REQUIRED TO DEAL WITH THE EMERGENCY. UNIT OPERATOR SHALL REPORT TO WORKING INTEREST OWNERS, AS PROMPTLY AS POSSIBLE, THE NATURE OF THE EMERGENCY AND THE ACTION TAKEN.

7.10 WELLS DRILLED BY UNIT OPERATOR. ALL WELLS DRILLED BY UNIT OPERATOR SHALL BE AT THE USUAL RATES PREVAILING IN THE AREA. UNIT OPERATOR MAY

EMPLOY ITS OWN TOOLS AND EQUIPMENT, BUT THE CHARGE THEREFOR SHALL NOT EXCEED THE PREVAILING RATE IN THE AREA, AND THE WORK SHALL BE PERFORMED BY UNIT OPERATOR UNDER THE SAME TERMS AND CONDITIONS AS ARE USUAL IN THE AREA IN CONTRACTS OF INDEPENDENT CONTRACTORS DOING WORK OF A SIMILAR NATURE.

ARTICLE 8

TAXES

8.1 AD VALOREM TAXES. BEGINNING THE FIRST CALENDAR YEAR AFTER THE EFFECTIVE DATE HEREOF UNIT OPERATOR SHALL MAKE AND FILE ALL NECESSARY AD VALOREM TAX RENDITIONS AND RETURNS WITH THE PROPER TAXING AUTHORITIES COVERING ALL REAL AND PERSONAL PROPERTY OF EACH WORKING INTEREST OWNER USED OR HELD BY UNIT OPERATOR IN UNIT OPERATIONS. UNIT OPERATOR SHALL SETTLE ASSESSMENTS ARISING THEREFROM. AL SUCH AD VALOREM TAXES SHALL BE PAID BY UNIT OPERATOR AND CHARGED TO THE JOINT ACCOUNT; PROVIDED THAT, IF THE INTEREST OF A WORKING INTEREST OWNER IS SUBJECT TO A SEPARATELY ASSESSED OVERRIDING ROYALTY INTEREST, PRODUCTION PAYMENT, OR OTHER INTEREST IN EXCESS OF A ONE-EIGHTH (1/8) ROYALTY, SUCH WORKING INTEREST OWNER SHALL BE GIVEN CREDIT FOR THE REDUCTION IN TAXES PAID RESULTING THEREFROM.

8.2 OTHER TAXES. EACH WORKING INTEREST OWNER SHALL PAY OR CAUSE TO BE PAID ALL PRODUCTION, SEVERANCE, GATHERING, AND OTHER TAXES IMPOSED UPON OR IN RESPECT OF THE PRODUCTION OR HANDLING OF ITS SHARE OF UNITIZED SUBSTANCES.

ARTICLE 9

INSURANCE

9.1 INSURANCE. UNIT OPERATOR, WITH RESPECT TO UNIT OPERATIONS, SHALL DO THE FOLLOWING:

9.1.1 COMPLY WITH THE WORKMEN'S COMPENSATION LAW OF THE STATE OF NEW MEXICO.

9.1.2 CARRY OR PROVIDE OTHER INSURANCE AS SET FORTH IN EXHIBIT E.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 PERSONAL PROPERTY TAKEN OVER. UPON THE EFFECTIVE DATE HEREOF, WORKING INTEREST OWNERS SHALL DELIVER TO UNIT OPERATOR THE FOLLOWING;

10.1.1 WELLS AND CASING. ALL WELLS COMPLETED IN THE UNITIZED FORMATION, TOGETHER WITH THE CASING THEREIN.

10.1.2 WELL AND LEASE EQUIPMENT. THE TUBING IN EACH SUCH WELL, THE WELLHEAD CONNECTIONS THEREON, AND ALL OTHER LEASE AND OPERATING EQUIPMENT THAT IS USED IN THE OPERATION OF SUCH WELLS WHICH WORKING INTEREST OWNERS DETERMINE IS NECESSARY OR DESIRABLE FOR CONDUCTING UNIT OPERATIONS.

10.1.3. RECORDS. A COPY OF ALL PRODUCTION AND WELL RECORDS THAT PERTAIN TO SUCH WELLS.

10.2 INVENTORY AND EVALUATION OF PERSONAL PROPERTY. WORKING INTEREST OWNERS SHALL AT UNIT EXPENSE INVENTORY AND EVALUATE IN ACCORDANCE WITH THE PROVISIONS OF EXHIBIT D THE PERSONAL PROPERTY TAKEN OVER. SUCH INVENTORIES SHALL INCLUDE AND BE LIMITED TO THOSE ITEMS OF EQUIPMENT NORMALLY CONSIDERED CONTROLLABLE BY OPERATORS OF OIL AND GAS PROPERTIES AS INDICATED IN THE 'MATERIALS CLASSIFICATION MANUAL', REVISED 1960, PREPARED BY THE PETROLEUM ACCOUNTANTS SOCIETY OF OKLAHOMA, EXCEPT THAT CERTAIN ITEMS NORMALLY CONSIDERED NON CONTROLLABLE, AS AGREED UPON BY THE WORKING INTEREST OWNERS, MAY BE INCLUDED ON THE INVENTORIES IN ORDER TO ENSURE A MORE EQUITABLE ADJUSTMENT OF INVESTMENTS. ALL OTHER NONCONTROLLABLE ITEMS OF LEASE AND WELL EQUIPMENT INSTALLED WITHIN THE UNIT AREA AND REQUIRED IN UNIT OPERATIONS, ALTHOUGH EXCLUDED FROM THE INVENTORIES, SHALL NEVERTHELESS BE TAKEN OVER BY THE UNIT OPERATOR. CASING SHALL BE INCLUDED IN THE INVENTORY FOR RECORD PURPOSES BUT SHALL BE EXCLUDED FROM PRICING AND INVESTMENT ADJUSTMENT.

10.3 INVESTMENT ADJUSTMENT. UPON APPROVAL BY WORKING INTEREST OWNERS OF THE INVENTORY AND EVALUATION, EACH WORKING INTEREST OWNER SHALL BE CREDITED WITH THE VALUE OF ITS INTEREST IN ALL PERSONAL PROPERTY TAKEN OVER UNDER SECTION 10.1.2, AND SHALL BE CHARGED WITH AN AMOUNT EQUAL TO THAT OBTAINED BY MULTIPLYING THE TOTAL VALUE OF ALL PERSONAL PROPERTY TAKEN OVER UNDER SECTION 10.1.2 BY SUCH WORKING INTEREST OWNER'S UNIT PARTICIPATION. IF THE CHARGE AGAINST ANY WORKING INTEREST OWNER IS GREATER THAN THE AMOUNT CREDITED TO SUCH WORKING INTEREST OWNER, THE RESULTING NET CHARGE SHALL BE AN ITEM OF UNIT EXPENSE CHARGEABLE AGAINST SUCH WORKING INTEREST OWNER. IF THE CREDIT TO ANY WORKING INTEREST OWNER IS GREATER THAN THE AMOUNT CHARGED AGAINST SUCH WORKING INTEREST OWNER, THE RESULTING NET CREDIT SHALL BE PAID TO SUCH WORKING INTEREST OWNER BY UNIT OPERATOR OUT OF FUNDS RECEIVED BY IT IN SETTLEMENT OF THE NET CHARGES DESCRIBED ABOVE.

10.4 GENERAL FACILITIES. THE ACQUISITION OF WAREHOUSES, WAREHOUSE STOCKS, LEASE HOUSES, CAMPS, FACILITY SYSTEMS, AND OFFICE BUILDINGS NECESSARY FOR UNIT OPERATIONS SHALL BE BY NEGOTIATION BY THE OWNERS THEREOF AND UNIT OPERATOR, SUBJECT TO THE APPROVAL OF WORKING INTEREST OWNERS.

10.5 OWNERSHIP OF PERSONAL PROPERTY AND FACILITIES. EACH WORKING INTEREST OWNER, INDIVIDUALLY, SHALL BY VIRTUE HEREOF OWN AN UNDIVIDED INTEREST EQUAL TO ITS UNIT PARTICIPATION, IN ALL PERSONAL PROPERTY AND FACILITIES TAKEN OVER OR OTHERWISE ACQUIRED BY UNIT OPERATOR PURSUANT TO THIS AGREEMENT.

10.6 ADJUSTMENT FOR NONUSABLE WELLS. ALL WELLS DELIVERED TO THE UNIT OPERATOR SHALL BE IN USABLE PHYSICAL CONDITION ON THE EFFECTIVE DATE. IF WITHIN THREE MONTHS SUBSEQUENT TO THE EFFECTIVE DATE ANY SUCH WELL IS DETERMINED BY THE WORKING INTEREST OWNERS TO BE IN NONUSABLE PHYSICAL CONDITION, THE COST, UP TO \$15,000, PLACING SUCH WELL IN USABLE PHYSICAL CONDITION SHALL BE CHARGED TO THE WORKING INTEREST OWNERS OWNING SUCH WELL IMMEDIATELY PRIOR TO THE EFFECTIVE DATE, PROVIDED THAT ANY AMOUNT IN EXCESS OF \$15,000 FOR ANY ONE WELL SHALL BE CHARGED PROPORTIONATELY TO ALL WORKING INTEREST OWNERS IN THE UNIT.

ARTICLE 11

UNIT EXPENSE

11.1 BASIS OF CHARGE TO WORKING INTEREST OWNERS. UNIT OPERATOR INITIALLY SHALL PAY ALL UNIT EXPENSE. EACH WORKING INTEREST OWNER SHALL REIMBURSE UNIT OPERATOR FOR ITS SHARE OF UNIT EXPENSE. EACH WORKING INTEREST OWNER'S SHARE SHALL BE THE SAME AS ITS UNIT PARTICIPATION. ALL CHARGES, CREDITS, AND ACCOUNTING FOR UNIT EXPENSE SHALL BE IN ACCORDANCE WITH EXHIBIT D.

11.2 BUDGETS. BEFORE OR AS SOON AS PRACTICAL AFTER THE EFFECTIVE DATE HEREOF, UNIT OPERATOR SHALL PREPARE A BUDGET OF ESTIMATED UNIT EXPENSE FOR THE REMAINDER OF THE CALENDAR YEAR, AND, ON OR BEFORE THE FIRST DAY OF EACH OCTOBER THEREAFTER, SHALL PREPARE SUCH A BUDGET FOR THE ENSUING CALENDAR YEAR. A BUDGET SHALL SET FORTH THE ESTIMATED UNIT EXPENSE BY QUARTERLY PERIODS. BUDGETS SHALL BE ESTIMATES ONLY, AND SHALL BE ADJUSTED OR CORRECTED BY WORKING INTEREST OWNERS AND UNIT OPERATOR WHENEVER AN ADJUSTMENT OR CORRECTION IS PROPER. A COPY OF EACH BUDGET AND ADJUSTED BUDGET SHALL PROMPTLY BE FURNISHED TO EACH WORKING INTEREST OWNER.

11.3 ADVANCE BILLINGS. UNIT OPERATOR SHALL HAVE THE RIGHT TO REQUIRE WORKING INTEREST OWNERS TO ADVANCE THEIR RESPECTIVE SHARES OF ESTIMATED UNIT EXPENSE BY SUBMITTING TO WORKING INTEREST OWNERS, ON OR BEFORE THE 15TH DAY OF ANY MONTH, AN ITEMIZED ESTIMATE THEREOF FOR THE SUCCEEDING MONTH, WITH A REQUEST FOR PAYMENT IN ADVANCE. WITHIN FIFTEEN (15) DAYS AFTER RECEIPT OF SUCH ESTIMATES EACH WORKING INTEREST OWNER SHALL PAY TO UNIT OPERATOR ITS SHARE OF SUCH ESTIMATE. ADJUSTMENTS BETWEEN ESTIMATED AND ACTUAL UNIT EXPENSE SHALL BE MADE BY UNIT OPERATOR AT THE CLOSE OF EACH CALENDAR MONTH, AND THE ACCOUNTS OF WORKING INTEREST OWNERS SHALL BE ADJUSTED ACCORDINGLY.

11.4 COMMINGLING OF FUNDS. NO FUNDS RECEIVED BY UNIT OPERATOR UNDER THIS AGREEMENT NEED BE SEGREGATED OR MAINTAINED BY IT AS A SEPARATE FUND, BUT MAY BE COMMINGLED WITH ITS OWN FUNDS.

11.5 LIEN OF UNIT OPERATOR. EACH WORKING INTEREST OWNER GRANTS TO UNIT OPERATOR A LIEN UPON ITS OIL AND GAS RIGHTS IN EACH TRACT, ITS SHARE OF UNITIZED SUBSTANCES WHEN PRODUCED, AND ITS INTEREST IN ALL UNIT EQUIPMENT, AS SECURITY FOR PAYMENT OF ITS SHARE OF UNIT EXPENSE, TOGETHER WITH INTEREST THEREON AT THE RATE OF EIGHT PERCENT (8%) PER ANNUM. UNIT OPERATOR SHALL HAVE THE RIGHT TO BRING SUIT TO ENFORCE COLLECTION OF SUCH INDEBTEDNESS WITH OR WITHOUT SEEKING FORECLOSURE OF THE LIEN. IN ADDITION, UPON DEFAULT BY ANY WORKING INTEREST OWNER IN THE PAYMENT OF ITS SHARE OF UNIT EXPENSE, UNIT OPERATOR SHALL HAVE THE RIGHT TO COLLECT FROM THE PURCHASER THE PROCEEDS FROM THE SALE OF SUCH WORKING INTEREST OWNER'S SHARE OF UNITIZED SUBSTANCES UNTIL THE AMOUNT OWED BY SUCH WORKING INTEREST OWNER, PLUS INTEREST AS AFORESAID, HAS BEEN PAID. EACH PURCHASER SHALL BE ENTITLED TO RELY UPON UNIT OPERATOR'S WRITTEN STATEMENT CONCERNING THE AMOUNT OF ANY DEFAULT.

11.6 UNPAID UNIT EXPENSE. IF ANY WORKING INTEREST OWNER FAILS TO PAY ITS SHARE OF UNIT EXPENSE WITHIN SIXTY (60) DAYS AFTER RENDITION OF A STATEMENT THEREFOR BY UNIT OPERATOR, EACH WORKING INTEREST OWNER AGREES, UPON REQUEST BY UNIT OPERATOR, TO PAY ITS PROPORTIONATE PART OF THE UNPAID SHARE OF UNIT EXPENSE OF THE DEFAULTING WORKING INTEREST OWNER. THE WORKING INTEREST OWNERS THAT PAY THE SHARE OF UNIT EXPENSE OF A DEFAULTING WORKING INTEREST OWNER SHALL BE REIMBURSED BY THE UNIT OPERATOR FOR THE AMOUNT SO PAID, PLUS ANY INTEREST COLLECTED THEREON, UPON RECEIPT BY UNIT OPERATOR OF ANY PAST DUE AMOUNT COLLECTED FROM THE DEFAULTING WORKING INTEREST OWNER. ANY WORKING INTEREST OWNER SO PAYING A DEFAULTING WORKING INTEREST OWNER'S SHARE OF UNIT EXPENSES SHALL BE SUBROGATED TO THE LIEN AND RIGHTS HEREIN GRANTED UNIT OPERATOR.

11.7 UNCOMMITTED ROYALTY. SHOULD AN OWNER OF A ROYALTY INTEREST IN ANY TRACT FAIL TO BECOME A PARTY TO THE UNIT AGREEMENT, AND, AS A RESULT THEREOF, THE ACTUAL ROYALTY INTEREST PAYMENTS WITH RESPECT TO SUCH TRACT ARE MORE OR LESS THAN THE ROYALTY INTEREST PAYMENTS COMPUTED ON THE BASIS OF THE UNITIZED SUBSTANCES THAT ARE ALLOCATED TO SUCH TRACT UNDER THE UNIT AGREEMENT, THE DIFFERENCE SHALL BE BORNE BY OR INURE TO THE BENEFIT OF WORKING INTEREST OWNERS, IN PROPORTION TO THEIR RESPECTIVE UNIT PARTICIPATIONS; HOWEVER, THE DIFFERENCE TO BE

WORKING INTEREST OWNERS. IF IT BECOMES NECESSARY TO WORK OVER, RECONDITION, OR REDRILL A WELL BY REASON OF OPERATIONS FOR PRODUCTION FROM SUCH OTHER COMMON SOURCES OF SUPPLY, OR THE ABANDONMENT THEREOF, THE WORKOVER, RECONDITIONING, OR REDRILLING SHALL BE DONE BY AN AT THE SOLE COST, RISK, AND EXPENSE OF SUCH WORKING INTEREST OWNER AND UNDER THE SUPERVISION OF THE UNIT OPERATOR. IF IT BECOMES NECESSARY TO WORK OVER, RECONDITION, OR REDRILL A WELL BY REASON OF THE DEVELOPMENT, OPERATION, OR ABANDONMENT OF THE UNITIZED FORMATION IN A MULTIPLY COMPLETED WELL, THE WORKOVER, RECONDITIONING, OR REDRILLING SHALL BE DONE BY UNIT OPERATOR UNDER THE SUPERVISION OF WORKING INTEREST OWNERS, AND ANY EXTRA EXPENSE INCURRED IN THE WORKOVER, RECONDITIONING, OR REDRILLING RESULTING FROM OR OCCASIONED BY THE WELL BEING A MULTIPLY COMPLETED WELL SHALL BE BORNE BY THE WORKING INTEREST OWNER PRODUCING FROM THE OTHER SOURCE OF SUPPLY IN THE WELL. THE TERM "EXTRA EXPENSE" MEANS THE DIFFERENCE BETWEEN THE NORMAL CHARGES INCURRED IN WORKING OVER, RECONDITIONING, OR REDRILLING A MULTIPLY COMPLETED WELL AND THE NORMAL CHARGES FOR DOING THE SAME WORK ON A WELL WHICH IS NOT MULTIPLY COMPLETED. THE UNIT OPERATOR SHALL FURNISH THE WORKING INTEREST OWNER WITH AN ESTIMATE OF SUCH CHARGES PRIOR TO THE COMMENCEMENT OF THE WORK. BEFORE ANY WORKING INTEREST OWNER SHALL COMMENCE THE WORKING OVER, RECONDITIONING, OR REDRILLING OF ANY WELL INCLUDED IN THE UNIT, THE PERMISSION OF WORKING INTEREST OWNERS SHALL BE SECURED. IN AN EMERGENCY, OR IF THE WORKING INTEREST OWNER FAILS TO COMPLY WITH THE REQUIREMENTS OF WORKING INTEREST OWNERS, WORKING INTEREST OWNERS SHALL HAVE THE AUTHORITY TO PERFORM ALL WORK NECESSARY TO PROTECT THE UNITIZED FORMATION. IF THERE IS A CONFLICT OF INTEREST BETWEEN THE UNIT AND ANY WORKING INTEREST OWNER WITH RESPECT TO A MULTIPLY COMPLETED WELL, OR THE OPERATION THEREOF, THE INTEREST OF THE UNIT SHALL PREVAIL. EXCEPT FOR BAD FAITH OR GROSS NEGLIGENCE, NEITHER THE UNIT NOR THE UNIT OPERATOR SHALL BE LIABLE OR RESPONSIBLE FOR ANY DAMAGE TO OR LOSS OF PRODUCTION FROM ANY OTHER SOURCES OF SUPPLY, NOR FOR DAMAGE TO THE PROPERTY, EQUIPMENT, OR FACILITIES OF A WORKING INTEREST OWNER USED IN THE DEVELOPMENT AND OPERATIONS OF A MULTIPLY COMPLETED WELL.

ARTICLE 13

TITLES

13.1 WARRANTY AND INDEMNITY. EACH WORKING INTEREST OWNER REPRESENTS AND WARRANTS THAT IT IS THE OWNER OF THE RESPECTIVE WORKING INTERESTS SET FORTH OPPOSITE ITS NAME IN EXHIBIT B AND HEREBY AGREES TO INDEMNIFY AND HOLD HARMLESS

THE OTHER WORKING INTEREST OWNERS FROM ANY LOSS DUE TO FAILURE, IN WHOLE OR IN PART, OF ITS TITLE TO ANY SUCH INTEREST, EXCEPT FAILURE OF TITLE ARISING OUT OF UNIT OPERATIONS; PROVIDED THAT, SUCH INDEMNITY SHALL BE LIMITED TO AN AMOUNT EQUAL TO THE NET VALUE THAT HAS BEEN RECEIVED FROM THE SALE OR RECEIPT OF UNITIZED SUBSTANCES ATTRIBUTED TO THE INTEREST AS TO WHICH TITLE FAILED. EACH FAILURE OF TITLE WILL BE DEEMED TO BE EFFECTIVE, INSOFAR AS THIS AGREEMENT IS CONCERNED, AS OF THE FIRST DAY OF THE CALENDAR MONTH IN WHICH SUCH FAILURE IS FINALLY DETERMINED, AND THERE SHALL BE NO RETROACTIVE ADJUSTMENT OF UNIT EXPENSE, OR RETROACTIVE ALLOCATION OF UNITIZED SUBSTANCES OR THE PROCEEDS THEREFORM, AS A RESULT OF TITLE FAILURE.

13.2 FAILURE BECAUSE OF UNIT OPERATIONS. THE FAILURE OF TITLE TO ANY WORKING INTEREST IN ANY TRACT BY REASON OF UNIT OPERATIONS, INCLUDING NON-PRODUCTION FROM SUCH TRACT, SHALL NOT CHANGE THE UNIT PARTICIPATION OF THE WORKING INTEREST OWNER WHOSE TITLE FAILED IN RELATION TO THE UNIT PARTICIPATIONS OF THE OTHER WORKING INTEREST OWNERS AT THE TIME OF THE TITLE FAILURE.

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

14.1 INDIVIDUAL LIABILITY. THE DUTIES, OBLIGATIONS, AND LIABILITIES OF WORKING INTEREST OWNERS 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, ASSOCIATION, OR TRUST AMONG WORKING INTEREST OWNERS.

14.2 SETTLEMENTS. UNIT OPERATOR MAY SETTLE ANY SINGLE DAMAGE CLAIM OR SUIT INVOLVING UNIT OPERATIONS BUT NOT INVOLVING AN EXPENDITURE IN EXCESS OF FIVE THOUSAND DOLLARS (\$5,000.00) PROVIDED THE PAYMENT IS IN COMPLETE SETTLEMENT OF SUCH CLAIM OR SUIT. IF THE AMOUNT REQUIRED FOR SETTLEMENT EXCEEDS THE ABOVE-SPECIFIED AMOUNT, WORKING INTEREST OWNERS SHALL ASSUME AND TAKE OVER THE FURTHER HANDLING OF THE CLAIM OR SUIT UNLESS SUCH AUTHORITY IS EXPRESSLY DELEGATED TO UNIT OPERATOR. ALL COSTS AND EXPENSE OF HANDLING, SETTLING, OR OTHERWISE DISCHARGING SUCH CLAIM OR SUIT SHALL BE AN ITEM OF UNIT EXPENSE. IF A CLAIM IS MADE AGAINST ANY WORKING INTEREST OWNER OR IF ANY WORKING INTEREST OWNER IS SUED ON ACCOUNT OF ANY MATTER ARISING FROM UNIT OPERATIONS AND OVER WHICH SUCH WORKING INTEREST OWNER INDIVIDUALLY HAS NO CONTROL BECAUSE OF THE RIGHTS GIVEN WORKING INTEREST OWNERS AND UNIT OPERATOR BY THIS AGREEMENT AND THE

UNIT AGREEMENT, THE WORKING INTEREST OWNER SHALL IMMEDIATELY NOTIFY THE UNIT OPERATOR, AND THE CLAIM OR SUIT SHALL BE TREATED AS ANY OTHER CLAIM OR SUIT INVOLVING UNIT OPERATIONS.

ARTICLE 15

INTERNAL REVENUE PROVISION

15.1 INTERNAL REVENUE PROVISION. EACH WORKING INTEREST OWNER HEREBY ELECTS THAT IT AND THE OPERATIONS COVERED BY THIS AGREEMENT BE EXCLUDED FROM THE APPLICATION OF SUBCHAPTER K OF CHAPTER 1 OF SUBTITLE A OF THE INTERNAL REVENUE CODE OF 1954, OR SUCH PORTION THEREOF AS THE SECRETARY OF THE TREASURY OF THE UNITED STATES OR HIS DELEGATE SHALL PERMIT BY ELECTION TO BE EXCLUDED THEREFROM. UNIT OPERATOR IS HEREBY AUTHORIZED AND DIRECTED TO EXECUTE ON BEHALF OF EACH WORKING INTEREST OWNER SUCH ADDITIONAL OR FURTHER EVIDENCE OF THE ELECTION AS MAY BE REQUIRED BY REGULATIONS ISSUED UNDER SAID SUBCHAPTER K. SHOULD THE REGULATIONS REQUIRE EACH PARTY TO EXECUTE SUCH FURTHER EVIDENCE, EACH WORKING INTEREST OWNER AGREES TO EXECUTE OR JOIN IN THE EXECUTION THEREOF. THE ELECTION HEREBY MADE AND OTHER PROVISIONS OF THIS PARAGRAPH SHALL APPLY IN LIKE MANNER TO APPLICABLE STATE LAWS, REGULATIONS, AND RULINGS NOW IN EFFECT OR HEREAFTER ENACTED THAT HAVE AN EFFECT SIMILAR TO THE FEDERAL PROVISIONS REFERRED TO HEREIN.

ARTICLE 16

NOTICES

16.1 NOTICES. ALL NOTICES REQUIRED HEREUNDER SHALL BE IN WRITING AND SHALL BE DEEMED TO HAVE BEEN PROPERLY SERVED WHEN SENT BY MAIL OR TELEGRAM TO THE ADDRESS OF THE REPRESENTATIVE OF EACH WORKING INTEREST OWNER AS FURNISHED TO UNIT OPERATOR IN ACCORDANCE WITH ARTICLE 4.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 WITHDRAWAL. A WORKING INTEREST OWNER MAY WITHDRAW FROM THIS AGREEMENT BY TRANSFERRING, WITHOUT WARRANTY OF TITLE, EITHER EXPRESS OR IMPLIED, TO THE OTHER WORKING INTEREST OWNERS WHO DO NOT DESIRE TO WITHDRAW, ALL ITS OIL AND GAS RIGHTS TOGETHER WITH ITS INTEREST IN ALL UNIT EQUIPMENT AND IN ALL WELLS USED IN UNIT OPERATIONS. SUCH TRANSFER SHALL NOT RELIEVE SAID WORKING INTEREST OWNER FROM ANY OBLIGATION OR LIABILITY INCURRED PRIOR TO THE DATE OF THE DELIVERY OF THE TRANSFER, WHICH DELIVERY MAY BE MADE TO UNIT OPERATOR AS AGENT FOR THE

TRANSFEREES. THE INTEREST TRANSFERRED SHALL BE OWNED BY THE TRANSFEREES IN PROPORTION TO THEIR RESPECTIVE UNIT PARTICIPATIONS. THE TRANSFEREES, IN PROPORTION TO THE RESPECTIVE INTERESTS SO ACQUIRED, SHALL PAY TRANSFEROR, FOR ITS INTEREST IN UNIT EQUIPMENT, THE FAIR SALVAGE VALUE THEREOF AS ESTIMATED AND FIXED BY WORKING INTEREST OWNERS. AFTER THE DATE OF DELIVERY OF THE TRANSFER, THE WITHDRAWING WORKING INTEREST OWNER SHALL BE RELIEVED FROM ALL FURTHER OBLIGATIONS AND LIABILITY HEREUNDER AND UNDER THE UNIT AGREEMENT, AND THE RIGHTS OF SUCH WORKING INTEREST OWNER HEREUNDER AND UNDER THE UNIT AGREEMENT SHALL CEASE INsofar AS THEY EXISTED BY VIRTUE OF THE INTEREST TRANSFERRED.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 RIGHTS OF FORMER OWNERS. IF WORKING INTEREST OWNERS DECIDE TO ABANDON PERMANENTLY ANY WELL WITHIN THE UNIT AREA PRIOR TO TERMINATION OF THE UNIT AGREEMENT, UNIT OPERATOR SHALL GIVE WRITTEN NOTICE THEREOF TO THE WORKING INTEREST OWNERS OF THE TRACT ON WHICH THE WELL IS LOCATED, AND THEY SHALL HAVE THE OPTION FOR A PERIOD OF NINETY (90) DAYS AFTER THE SENDING OF SUCH NOTICE TO NOTIFY UNIT OPERATOR IN WRITING OF THEIR ELECTION TO TAKE OVER AND OWN THE WELL. WITHIN TEN (10) DAYS AFTER THE WORKING INTEREST OWNERS OF THE TRACT HAVE NOTIFIED UNIT OPERATOR OF THEIR ELECTION TO TAKE OVER THE WELL, THEY SHALL PAY UNIT OPERATOR, FOR CREDIT TO THE JOINT ACCOUNT, THE AMOUNT ESTIMATED BY WORKING INTEREST OWNERS TO BE THE NET SALVAGE VALUE OF THE CASING AND EQUIPMENT IN AND ON THE WELL. THE WORKING INTEREST OWNERS OF THE TRACT, BY TAKING OVER THE WELL, AGREE TO SEAL OFF EFFECTIVELY AND PROTECT THE UNITIZED FORMATION, AND UPON ABANDONMENT TO PLUG THE WELL IN COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS.

18.2 PLUGGING. IF THE WORKING INTEREST OWNERS OF A TRACT DO NOT ELECT TO TAKE OVER A WELL LOCATED THEREON WHICH IS PROPOSED FOR ABANDONMENT, UNIT OPERATOR SHALL PLUG AND ABANDON THE WELL IN COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS.

ARTICLE 19

EFFECTIVE DATE AND TERM

19.1 EFFECTIVE DATE. THIS AGREEMENT SHALL BECOME EFFECTIVE ON THE DATE AND AT THE TIME THAT THE UNIT AGREEMENT BECOMES EFFECTIVE.

19.2 TERM. THIS AGREEMENT SHALL CONTINUE IN EFFECT SO LONG AS THE UNIT AGREEMENT REMAINS IN EFFECT, AND THEREAFTER UNTIL (A) ALL UNIT WELLS HAVE

BEEN ABANDONED AND PLUGGED OR TURNED OVER TO WORKING INTEREST OWNERS IN ACCORDANCE WITH ARTICLE 20, (b) ALL UNIT EQUIPMENT AND REAL PROPERTY ACQUIRED FOR THE JOINT ACCOUNT HAVE BEEN DISPOSED OF BY UNIT OPERATOR IN ACCORDANCE WITH INSTRUCTIONS OF WORKING INTEREST OWNERS, AND (c) THERE HAS BEEN A FINAL ACCOUNTING.

1988 ACTION REQUIRED TO EFFECTIVE DATE WORKING INTEREST OWNERS MAY, PRIOR TO THE EFFECTIVE DATE OF THE UNIT AGREEMENT, TAKE SUCH ACTION AND INCUR SUCH EXPENSE AS ARE REASONABLY NECESSARY TO COMMENCE UNIT OPERATIONS ON THE EFFECTIVE DATE; PROVIDED WORKING INTEREST OWNERS HAVING SIXTY PERCENT (60%) OF THE UNIT PARTICIPATION SHOWN ON EXHIBIT B HAVE EXECUTED THIS AGREEMENT, AND FURTHER PROVIDED, THAT SUCH ACTION BE DECIDED BY THE SAME VOTE AS WOULD HAVE BEEN REQUIRED TO TAKE SUCH ACTION HAD IT BEEN VOTED UPON SUBSEQUENT TO THE EFFECTIVE DATE. SUCH ACTION MAY INCLUDE THE DESIGNING, ENGINEERING, AND CONSTRUCTION OF THE SECONDARY RECOVERY FACILITIES CONTEMPLATED HEREBY, OR FOR ANY OTHER FACILITIES OR EQUIPMENT REQUIRED FOR UNIT OPERATIONS, AND THE ACQUISITION OF MATERIALS, RIGHTS OF WAY, WATER RIGHTS, AND EASEMENTS THEREFOR. IF THE UNIT AGREEMENT BECOMES EFFECTIVE, SUCH COSTS SHALL BE TREATED AS AN ITEM OF UNIT EXPENSE. IF THE UNIT AGREEMENT DOES NOT BECOME EFFECTIVE, THE COSTS AND EXPENSES INCURRED HEREUNDER SHALL BE PAID BY AND BORNE BY THE WORKING INTEREST OWNERS WHO HAVE BECOME PARTIES TO THIS AGREEMENT IN THE PROPORTION THAT THE RESPECTIVE UNIT PARTICIPATION OF EACH SUCH WORKING INTEREST OWNER, AS SHOWN ON EXHIBIT B, BEARS TO THE TOTAL UNIT PARTICIPATION OF ALL SUCH WORKING INTEREST OWNERS.

*OK me
7/05
P.M.
J.M.*

ARTICLE 20

ABANDONMENT OF OPERATIONS

20.1 TERMINATION. UPON TERMINATION OF THE UNIT AGREEMENT, THE FOLLOWING WILL OCCUR:

20.1.1 OIL AND GAS RIGHTS. OIL AND GAS RIGHTS IN AND TO EACH SEPARATE TRACT SHALL NO LONGER BE AFFECTED BY THIS AGREEMENT, AND THEREAFTER THE PARTIES SHALL BE GOVERNED BY THE TERMS AND PROVISIONS OF THE LEASES, CONTRACTS, AND OTHER INSTRUMENTS AFFECTING THE SEPARATE TRACTS.

20.1.2 RIGHT TO OPERATE. WORKING INTEREST OWNERS OF ANY TRACT THAT DESIRE TO TAKE OVER AND CONTINUE TO OPERATE WELLS LOCATED THEREON MAY DO SO BY PAYING UNIT OPERATOR, FOR CREDIT TO THE JOINT ACCOUNT, THE NET SALVAGE VALUE OF THE CASING AND EQUIPMENT IN AND ON

THE WELLS TAKEN OVER, AS ESTIMATED BY WORKING INTEREST OWNERS,
AND BY AGREEING TO PLUG PROPERLY EACH WELL AT SUCH TIME AS IT IS
ABANDONED.

20.1.3 SALVAGING WELLS. UNIT OPERATOR SHALL SALVAGE AS MUCH
OF THE CASING AND EQUIPMENT IN OR ON WELLS NOT TAKEN OVER BY WORKING
INTEREST OWNERS OF SEPARATE TRACTS AS CAN ECONOMICALLY AND REASONA-
BLY BE SALVAGED, AND SHALL CAUSE THE WELLS TO BE PLUGGED AND ABANDONED
PROPERLY.

20.1.4 COST OF SALVAGING. WORKING INTEREST OWNERS SHALL SHARE
THE COST OF SALVAGING, LIQUIDATION OR OTHER DISTRIBUTION OF ASSETS
AND PROPERTIES USED IN UNIT OPERATION IN PROPORTION TO THEIR RESPECTIVE
UNIT PARTICIPATIONS.

ARTICLE 21

EXECUTION

21.1 ORIGINAL, COUNTERPART, OR OTHER INSTRUMENT. A PARTY MAY BECOME
A PARTY TO THIS AGREEMENT BY SIGNING THE ORIGINAL OF THIS INSTRUMENT, A COUNTER-
PART THEREOF, OR OTHER INSTRUMENT AGREEING TO BE BOUND BY THE PROVISIONS HEREOF.
THE SIGNING OF ANY SUCH INSTRUMENT SHALL HAVE THE SAME EFFECT AS IF ALL THE PARTIES
HAD SIGNED THE SAME INSTRUMENT.

ARTICLE 22

SUCCESSORS AND ASSIGNS

22.1 SUCCESSORS AND ASSIGNS. THE PROVISIONS HEREOF SHALL BE COVENANTS
RUNNING WITH THE LANDS, LEASES, AND INTERESTS COVERED HEREBY, AND SHALL BE BINDING
UPON AND INURE TO THE BENEFIT OF THE RESPECTIVE HEIRS, DEVISEES, LEGAL REPRE-
SENTATIVES, SUCCESSORS, AND ASSIGNS OF THE PARTIES HERETO.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE EXECUTED THIS AGREEMENT
ON THE DATES OPPOSITE THEIR RESPECTIVE SIGNATURES.

NAME

DATE SIGNED

ATTEST, IF A CORPORATION OR
WITNESS, IF AN INDIVIDUAL

SUNSET INTERNATIONAL PETROLEUM CORPORATION

ATTEST:

BY

Arnold A. Luahala 1-15-65
VICE PRESIDENT

BY

G. A. Smith
Asst. SECRETARY

CARPER DRILLING COMPANY, INC

By Marshall Rowley
TITLE Marshall Rowley, Exec. Vice-Pres.

ATTEST:

Kenneth B. Cashner
SECRETARY

ADDRESS 200 Carper Bldg
Artesia, New Mexico

PHILLIPS PETROLEUM COMPANY

By H. O. Mobley
ADDRESS Vice President

ATTEST:

Lester Stoney
Asst. Secretary

Bartlesville, Oklahoma

INDIVIDUAL

Charles P. Miller
CHARLES P. MILLER

WITNESS:

Robert W. Arrandell

Iris Miller

AND

HIS WIFE

Robert W. Arrandell

STATE OF New Mexico
COUNTY OF Eddy) SS

CORPORATION ACKNOWLEDGEMENT

ON THIS 14th DAY OF January, 1965, BEFORE ME APPEARED

Marshall Rowley, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY
SWORN, DID SAY THAT HE IS THE Executive Vice President OF

Carper Drilling Company, Inc. A CORPORATION, AND THAT THE SEAL AFFIXED

TO SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRUMENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD OF DIRECTORS, AND SAID Marshall Rowley ACKNOWLEDGED SAID INSTRUMENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 14th DAY OF January, 1965.

MY COMMISSION EXPIRES:

10-15-67

Chris Chapin

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____)
COUNTY OF _____) SS

STATE OF Oklahoma
COUNTY OF Washington

SS

CORPORATION ACKNOWLEDGEMENT

ON THIS 11th DAY OF January, ¹⁹⁶⁵~~1964~~, BEFORE ME APPEARED

H. D. BROOKBY

, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY

SWORN, DID SAY THAT HE IS THE VICE PRESIDENT OF

Phillips Petroleum Company

, A CORPORATION, AND THAT THE SEAL AFFIXED TO SAID INSTRU-

MENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRUMENT WAS SIGNED

AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD OF DIRECTORS, AND

SAID VICE PRESIDENT ACKNOWLEDGED SAID INSTRUMENT TO BE THE

FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 11th DAY OF January,

~~1964~~. 1965

MY COMMISSION EXPIRES:

Russell J. McLellan

My Comm. Expires 11-1-66

Russell J. McLellan
NOTARY PUBLIC IN AND FOR SAID

COUNTY AND STATE

STATE OF _____
COUNTY OF _____

SS

STATE OF California
COUNTY Los Angeles

SS

CORPORATION ACKNOWLEDGEMENT

ON THIS 15th DAY OF January, ¹⁹⁶⁵~~1964~~, BEFORE ME APPEARED

Harold A. Svoboda

, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY

SWORN, DID SAY THAT HE IS THE Vice Pres OF

SUNSET INTERNATIONAL PETROLEUM CORPORATION, A CORPORATION, AND THAT THE SEAL AFFIXED

TO SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRU-

MENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD

OF DIRECTORS, AND SAID he ACKNOWLEDGED SAID INSTRU-

MENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 15th DAY OF January,

¹⁹⁶⁵
~~1964~~.

MY COMMISSION EXPIRES:

Florence Marx
NOTARY PUBLIC IN AND FOR SAID

COUNTY AND STATE

FLORENCE MARX

My Commission Expires July 28, 1965

STATE OF _____
COUNTY OF _____

SS

INDIVIDUAL ACKNOWLEDGEMENT

THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME THIS _____ DAY
OF _____, 1964, BY _____
MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

JOINT ACKNOWLEDGEMENT
(HUSBAND AND WIFE)

THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME THIS 14th DAY
OF January, ~~1964~~ 1965, BY Charles P. Miller AND Iris Miller
HIS WIFE.

MY COMMISSION EXPIRES:
Oct. 24 1965
STATE OF New Mexico }
COUNTY OF Lea } SS

[Signature]
NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

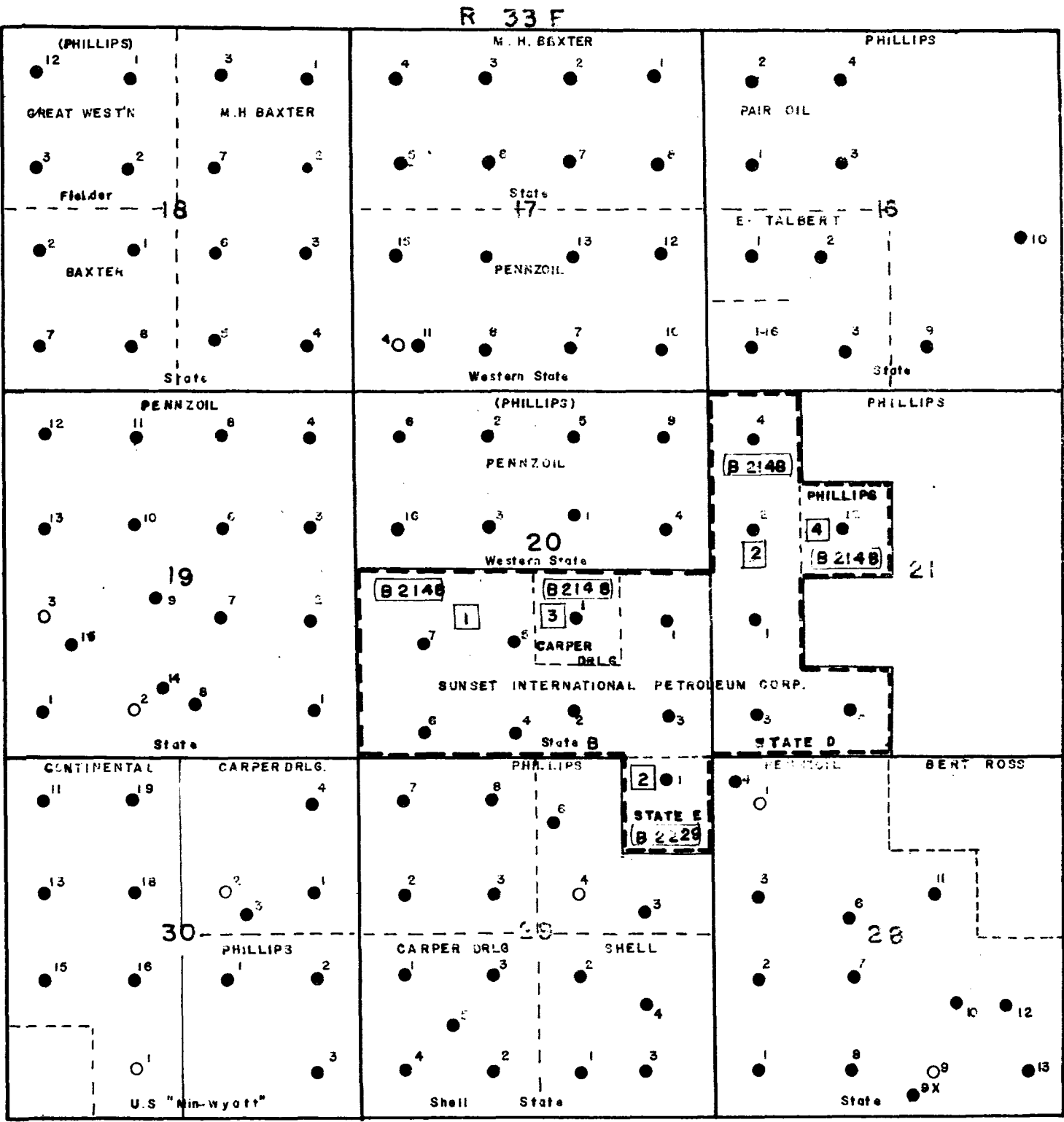


EXHIBIT A
MAL GRA UNIT
LEA COUNTY, NEW MEXICO
----- MAL GRA UNIT BOUNDARY
□ TRACT NUMBER
▭ NEW MEXICO LEASE NUMBER

LEA COUNTY, NEW MEXICO

[illegible]

EXHIBIT "C" TO UNIT AGREEMENT

MAL-GRA UNIT

MALJAMAR FIELD

LEA COUNTY, NEW MEXICO

TRACT No.	LEASE NAME	NUMBER WELLS	GROSS RESERVES 1,1/64	ULTIMATE PRIMARY OIL	CURRENT PRODUCTION LAST 6 MOS. 1963	TRACT PARTICIPATION IN UNIT 70% ULTIMATE - 30% CURRENT
1	STATE B	7	29,000 Bbls.	314,800 Bbls.	5,260 Bbls.	0.411888 0.152170
2	STATE D&E	6	15,400	157,000	3,040	0.205421 0.087946
3	PHILLIPS STATE	1	1,700	52,300	540	0.068429 0.15622
4	LEAMEX	1	4,480	10,900	1,530	0.014262 0.044262
	TOTAL	15	50,580	535,000	10,370	0.700000 0.300000

Attached to and made a part of _____ UNIT OPERATING AGREEMENT
 _____ MAL-GRA UNIT
 _____ MALJAMAR FIELD
 _____ LEA COUNTY, NEW MEXICO

ACCOUNTING PROCEDURE (JOINT OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this "Accounting Procedure" is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

Where an agreement or other action of Non-Operators is expressly required under this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the agreement or action of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph _____ A _____ 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. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator 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.

EIGHT $\frac{8}{100}$

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators to protest or question the correctness thereof; provided however, all bills and statements rendered to Non-Operators 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 a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of the Joint Property as provided for in Section VII.

7. 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, the making of an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 6 of this Section I. 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. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

4. Material Material purchased or furnished by Operator for use on 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.

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the railway receiving point where like material is available, except by agreement with Non-Operators. Joint Account for a distance greater than the nearest reliable supply store or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material

C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs to other properties belonging to Operator, except by agreement with Non-Operators.

6. Services of \$100 or less.

A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.

B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident or any other cause, except to the extent that the damage or

loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall

damages not operators' which have been received by Operator.

Legal Expense All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the joint operations or management of the two companies, including but not limited to attorneys' fees.

Operations or necessary to protect or recover the joint property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any

such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), ex-

cept by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

9. Taxes
All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation

thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of

his Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section II, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

☐ Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)

☒ Paragraph 4. (Combined fixed rate)

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in

the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's

maintaining and operating a production office known as Operator S _____ office located at or near _____ (or a comparable office if location changed), and neces-

sary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property

and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such

charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. Administrative Overhead

lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries

wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

DRILLING WELL RATE (Use Total Depth)

PRODUCING WELL RATE (Use Current Producing Depth)

Well Depth	Each Well	First Five	Next Five	Over Ten All Wells
------------	-----------	------------	-----------	-----------------------

Year	1990	1991	1992	1993	1994
1990	1.0	1.0	1.0	1.0	1.0
1991	1.0	1.0	1.0	1.0	1.0
1992	1.0	1.0	1.0	1.0	1.0
1993	1.0	1.0	1.0	1.0	1.0
1994	1.0	1.0	1.0	1.0	1.0

1	2	3	4	5
6	7	8	9	10
11	12	13	14	15
16	17	18	19	20
21	22	23	24	25
26	27	28	29	30
31	32	33	34	35
36	37	38	39	40
41	42	43	44	45
46	47	48	49	50
51	52	53	54	55
56	57	58	59	60
61	62	63	64	65
66	67	68	69	70
71	72	73	74	75
76	77	78	79	80
81	82	83	84	85
86	87	88	89	90
91	92	93	94	95
96	97	98	99	100

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in

his Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. **Operator's Fully Owned Warehouse Operating and Maintenance Expense**
(Describe fully the agreed procedure to be followed by the Operator.)

4. **Combined Fixed Rates**

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
	\$500	\$75	\$60	\$50

Said fixed rate-~~(shall)~~ (shall not) include salaries and expenses of production foremen.

5. **Application of Administrative Overhead or Combined Fixed Rates**

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

- A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
 - B. The status of wells shall be as follows:
 - (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
 - (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
 - (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
 - (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
 - (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
 - (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
 - C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
 - D. The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.
6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:
- A. Total cost less than \$25,000, no charge.
 - B. Total cost more than \$25,000 but less than \$100,000, 2___% of total cost.
 - C. Total cost of \$100,000 or more, 2___% of the first \$100,000 plus 1___% of all over \$100,000 of total cost.
- Total cost shall mean the total gross cost of any one project. For the purpose of this Paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.
7. The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. **Purchases**

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

2. **Material furnished from Operator's Warehouse or Other Properties**

- A. New Material (Condition "A")
 - (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
 - (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
 - (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.
- B. Used Material (Condition "B" and "C")
 - (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
 - (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 classified as Condition "C" and priced at fifty per cent (50%) of current new price.
 - (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.
(4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. **Premium Prices**
Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV 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 Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. **Warranty of Material Furnished by Operator**
Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

5. **Equipment and Facilities Furnished by Operator**
A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniformly prevailing against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.
B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.
C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Conditionable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall 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-Operators**
Material purchased by either the Operator or Non-Operators 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-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator 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 claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. **BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT**
Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. **New Price Defined**
New price as used in this Section VI shall be the price specified for New Material in Section IV.
2. **New Material**
New Material (Condition "A"), being new Material procured for the Joint Property but never used, 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 Account as secondhand at seventy-five percent (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. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
B. Is serviceable for original function but not suitable for reconditioning.

5. **Bad-Order Material**
Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. **Junk Material**
Junk Material (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 Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, 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.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

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

2. **Reconciliation and Adjustment of Inventories**
Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. 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 whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

EXHIBIT "E"

WITH RESPECT TO PRODUCING OPERATIONS CONDUCTED HEREUNDER, UNIT OPERATOR SHALL AT ALL TIMES PURCHASE OR PROVIDE FOR THE PROTECTION AND BENEFIT OF THE PARTIES HERTO, PROTECTION COMPARABLE TO THAT AFFORDED UNDER STANDARD FORM POLICIES OF INSURANCE FOR:

- (A) WORKMEN'S COMPENSATION INSURANCE TO COMPLY WITH THE APPLICABLE FEDERAL AND STATE WORKMEN'S COMPENSATION LAWS.
- (B) GENERAL PUBLIC LIABILITY INSURANCE WITH BODILY INJURY LIMITS OF \$50,000 ANY ONE PERSON, \$100,000 ANY ONE ACCIDENT.
- (C) GENERAL PUBLIC LIABILITY PROPERTY DAMAGE INSURANCE WITH LIMITS OF \$50,000 FOR EACH ACCIDENT, WITH THE EXCEPTION OF THE FIRST \$5,000 OF LOSS WHICH SHALL BE SELF-INSURED.
- (D) AUTOMOBILE PUBLIC LIABILITY INSURANCE WITH BODILY INJURY LIMITS OF \$50,000 ANY ONE PERSON, \$100,000 ANY ONE ACCIDENT AND PROPERTY DAMAGE LIMIT OF \$50,000 ANY ONE ACCIDENT. THE PREMIUM FOR AUTOMOBILE PUBLIC LIABILITY INSURANCE SHALL BE INCLUDED IN THE RATE FOR 100% OWNED CARS.

UNIT OPERATOR SHALL CHARGE TO THE JOINT ACCOUNT AN AMOUNT EQUAL TO THE PREMIUM APPLICABLE TO THE PROTECTION PROVIDED.

ALL LOSSES NOT COVERED BY STANDARD FORM POLICIES OF INSURANCE FOR THE HAZARDS SET OUT ABOVE SHALL BE BORNE BY THE PARTIES HERETO AS THEIR INTERESTS APPEAR AT THE TIME OF ANY LOSS.

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UNIT AGREEMENT
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UNIT AGREEMENT
MAL-GRA UNIT
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LEA COUNTY, NEW MEXICO

UNIT AGREEMENT
MAL-GRA UNIT
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE

MAL GRA UNIT

MALJAMAR FIELD

LEA COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, ENTERED INTO AS OF THE 1ST DAY OF AUGUST, 1964, BY AND BETWEEN THE PARTIES SUBSCRIBING, RATIFYING, OR CONSENTING HERETO, AND HEREIN REFERRED TO AS "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 (SECTION 3, CHAPTER 88, LAWS 1943 AS AMENDED BY SECTION 1 OF CHAPTER 162, LAWS OF 1951) TO CONSENT TO OR APPROVE THIS AGREEMENT ON BEHALF OF THE STATE OF NEW MEXICO, INsofar AS IT COVERS AND INCLUDES LANDS AND MINERAL INTERESTS OF THE STATE OF NEW MEXICO; 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) TO AMEND WITH THE APPROVAL OF THE LESSEE, ANY OIL AND GAS LEASE EMBRACING STATE LANDS SO THAT THE LENGTH OF THE TERM OF SAID LEASE MAY COINCIDE WITH THE TERMS OF THE UNITIZED DEVELOPMENT AND OPERATION OF STATE LANDS; AND

WHEREAS, THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO IS AUTHORIZED BY LAW (CHAPTER 72, LAWS OF 1935, AS AMENDED BY CHAPTER 193, LAWS OF 1937, CHAPTER 166, LAWS OF 1951, 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 UNIT AREA SUBJECT TO THIS AGREEMENT TO GIVE REASONABLE EFFECTIVE CONTROL OF OPERATION THEREIN; AND

WHEREAS, IT IS THE PURPOSE OF THE PARTIES HERETO, TO ENABLE INSTITUTION AND CONSUMMATION OF SECONDARY RECOVERY OPERATIONS, TO CONSERVE NATURAL RESOURCES, PREVENT WASTE AND SECURE THE OTHER BENEFITS OBTAINABLE THROUGH DEVELOPMENT AND OPERATION OF THE UNIT AREA SUBJECT TO THIS AGREEMENT UNDER THE TERMS, CONDITIONS, AND LIMITATIONS HEREIN SET FORTH.

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND PROMISES HEREIN CONTAINED, THE PARTIES HERETO COMMIT TO THIS AGREEMENT THEIR RESPECTIVE INTERESTS IN THE BELOW DEFINED UNIT AREA SUBJECT TO THIS AGREEMENT, AND AGREE SEVERALLY AMONG THEMSELVES AS FOLLOWS:

1. DEFINITIONS: FOR THE PURPOSE OF THIS AGREEMENT, THE FOLLOWING TERMS AND EXPRESSIONS AS USED HEREIN SHALL MEAN:
 - (A) "COMMISSION" IS DEFINED AS THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO.
 - (B) "COMMISSIONER" IS DEFINED AS THE COMMISSIONER OF PUBLIC LANDS OF THE STATE OF NEW MEXICO.
 - (C) "PAYING QUANTITIES" IS DEFINED AS PRODUCTION OF UNITIZED SUBSTANCES IN QUANTITIES SUFFICIENT TO PAY FOR THE COST OF PRODUCING SAME FROM WELLS COMPLETED IN THE UNITIZED FORMATION.

- (D) "PRODUCTIVE ACREAGE" IS DEFINED AS AND SHALL MEAN THE ACREAGE REASONABLY PROVEN TO BE PRODUCTIVE OF UNITIZED SUBSTANCES FROM THE UNITIZED FORMATION.
- (E) "ULTIMATE RECOVERY" SHALL MEAN AND REFER TO THE NUMBER OF BARRELS OF OIL AVAILABLE FOR PRODUCTION, AS DETERMINED AND DESCRIBED IN TABLE C ATTACHED HERETO, FROM THE TRACTS HEREINAFTER DESCRIBED IN EXHIBIT A & B BY PRESENTLY KNOWN AND COMMONLY ACCEPTED PRIMARY RECOVERY PRODUCTION METHODS.
- (F) "CURRENT PRODUCTION" SHALL MEAN AND REFER TO THE TOTAL PRODUCTION OF OIL DURING AND INCLUDING THE PERIOD OF JULY TO DECEMBER OF THE YEAR 1963.
- (G) "ROYALTY INTEREST" MEANS A RIGHT TO OR INTEREST IN ANY PORTION OF THE UNITIZED SUBSTANCES OR PROCEEDS THEREOF OTHER THAN WORKING INTEREST.
- (H) "ROYALTY OWNER" MEANS A PARTY HERETO WHO OWNS A ROYALTY INTEREST.
- (I) "SECONDARY PRODUCTION" IS DEFINED AS AND SHALL BE ALL OIL PRODUCED FROM THE UNITIZED FORMATION AFTER THE REMAINING PRIMARY PRODUCTION HAS BEEN PRODUCED.
- (J) "UNITIZED FORMATION" IS DEFINED AS AND SHALL MEAN THAT HERETOFORE ESTABLISHED UNDERGROUND RESERVOIR UNDERLYING UNIT AREA AND COMMONLY KNOWN AS THE GRAYBURG FORMATION OF THE PERMIAN AGE BEING FURTHER IDENTIFIED AS THE PRODUCING FORMATION FOUND IN SUNSET INTERNATIONAL PETROLEUM CORPORATIONS STATE B-1 WELL LOCATED IN THE NE/4 SE/4 SECTION 20 - T17S-R33E, LEA COUNTY, NEW MEXICO BETWEEN THE DEPTHS OF 4,230' AND 4,380'.
- (K) "UNITIZED SUBSTANCES" IS DEFINED AS AND SHALL MEAN ALL OF THE OIL AND GAS CONTAINED IN OR PRODUCED FROM THE UNITIZED FORMATION.
- (L) "UNITIZED LAND" OR "LAND SUBJECT TO THIS AGREEMENT" IS DEFINED AS AND SHALL MEAN THOSE LANDS WITHIN THE UNIT AREA WHICH ARE COMMITTED TO THIS AGREEMENT.
- (M) "UNIT MANAGER" IS DEFINED AS THE PERSON OR CORPORATION APPOINTED BY THE WORKING INTEREST OWNERS TO PERFORM THE DUTIES OF THE UNIT OPERATOR UNTIL THE SELECTION AND QUALIFICATION OF A SUCCESSOR UNIT OPERATOR AS PROVIDED FOR IN SECTION 6 HEREOF.
- (N) "UNIT OPERATING AGREEMENT" IS DEFINED AS AND SHALL MEAN THE AGREEMENT ENTERED INTO (SEPARATELY OR COLLECTIVELY) BY AND BETWEEN THE UNIT OPERATOR AND THE WORKING INTEREST OWNERS AS PROVIDED IN SECTION 7, ENTITLED, "UNIT OPERATING AGREEMENT, MAL-GRA UNIT, LEA COUNTY, NEW MEXICO", OR ANY AMENDMENT OR SUPPLEMENT THERETO.
- (O) "USABLE WELL" IS DEFINED AS A WELL WHICH HAS BEEN DRILLED IN THE UNIT AREA TO THE DEPTH OF THE UNITIZED FORMATION AND HAS CASING IN THE HOLE IN CONDITION FOR USE AS EITHER A PRODUCING WELL OR AN INJECTION WELL, AND ON WHICH WELL THERE HAS BEEN FILED WITH THE STATE OF NEW MEXICO, ON OR BEFORE THE EFFECTIVE DATE OF THIS AGREEMENT, A WELL RECORD AND COMPLETION REPORT (FORM C-105) OR REQUEST FOR OIL ALLOWABLE (FORM C-104) AND WHICH WELL HAS PRODUCED SOME OIL FROM THE UNITIZED FORMATION AND HAS HAD AN ALLOWABLE GRANTED FOR IT BY THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO.
- (P) "WORKING INTEREST" MEANS AN INTEREST IN UNITIZED SUBSTANCES BY VIRTUE OF A LEASE, OPERATING AGREEMENT, FEE TITLE, OR OTHERWISE, INCLUDING A CARRIED INTEREST, WHICH INTEREST IS CHARGEABLE WITH AND OBLIGATED TO PAY OR BEAR, EITHER IN CASH OR OUT OF PRODUCTION OR OTHERWISE, ALL OR A PORTION OF THE COST OF DRILLING, DEVELOPING, PRODUCING, AND OPERATING THE UNITIZED FORMATION. ANY INTEREST IN UNITIZED SUBSTANCES

WHICH IS A WORKING INTEREST AS OF THE DATE THE OWNER THEREOF EXECUTES OR RATIFIES THIS AGREEMENT SHALL THEREAFTER BE TREATED AS A WORKING INTEREST FOR ALL PURPOSES OF THIS AGREEMENT.

- (q) "WORKING INTEREST OWNER" MEANS A PARTY HERETO WHO OWNS A WORKING INTEREST. THE OWNER OF OIL AND GAS RIGHTS THAT ARE FREE OF LEASE OR OTHER INSTRUMENT CONVEYING THE WORKING INTEREST TO ANOTHER SHALL BE REGARDED AS A WORKING INTEREST OWNER TO THE EXTENT OF SEVEN-EIGHTS (7/8) OF HIS INTEREST IN UNITIZED SUBSTANCES, AND AS A ROYALTY OWNER WITH RESPECT TO HIS REMAINING ONE-EIGHTH (1/8) INTEREST THEREIN.

2. UNIT AREA AND PARTICIPATION: THE FOLLOWING DESCRIBED LAND IS HEREBY DESIGNATED AND RECOGNIZED AS CONSTITUTING THE UNIT AREA AS TO WHICH THIS AGREEMENT BECOMES EFFECTIVE, TO WIT:

NEW MEXICO PRINCIPAL MERIDAN, NEW MEXICO

T.17S., R.33E.

SECTION 20: S/2
21: W/2 W/2, SE/4 SW/4 AND SE/4 NW/4
29: NE/4 NE/4

SITUATED IN LEA COUNTY, NEW MEXICO, CONTAINING 600 ACRES, MORE OR LESS, AND SUCH ADDITIONAL LANDS TO WHICH THIS AGREEMENT MAY BE EXTENDED, ALL AS HEREIN PROVIDED

EXHIBIT "A" ATTACHED HERETO IS A MAP SHOWING THE UNIT AREA AND THE BOUNDARIES AND IDENTITY OF TRACTS AND LEASES IN SAID UNIT 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 COMPRISING EACH TRACT, PERCENTAGE OWNERSHIP OF EACH WORKING INTEREST OWNER IN EACH TRACT, AND THE PERCENTAGES OF PARTICIPATION. 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 COMMISSIONER. TWO COPIES OF SUCH REVISION SHALL BE FILED WITH THE COMMISSIONER.

THE ABOVE DESCRIBED UNIT AREA MAY, WHEN PRACTICABLE, BE EXPANDED TO INCLUDE THEREIN ANY ADDITIONAL TRACT OR TRACTS REGARDED AS REASONABLY NECESSARY OR ADVISABLE FOR THE PURPOSES OF THIS AGREEMENT. SUCH EXPANSION SHALL BE EFFECTED IN THE FOLLOWING MANNER:

- (A) THE OWNER OR OWNERS OF THE WORKING INTEREST IN AND TO A TRACT OR TRACTS DESIRING TO BRING SUCH TRACT OR TRACTS INTO THE UNIT AREA SHALL FILE AN APPLICATION THEREFOR WITH UNIT OPERATOR REQUESTING SUCH ADMISSION.
- (B) UNIT OPERATOR SHALL CIRCULATE A NOTICE TO EACH WORKING INTEREST OWNER OF THE PROPOSED EXPANSION, SETTING OUT THE BASIS FOR ADMISSION, THE UNIT PARTICIPATION TO BE ASSIGNED TO SUCH TRACT OR TRACTS, AND OTHER PERTINENT DATA. AFTER NEGOTIATION (AT WORKING INTEREST OWNERS; MEETING OR OTHERWISE) IF WORKING INTEREST OWNERS HAVING NINETY PER CENT (90%) OF THE WORKING INTEREST IN THE UNIT AREA AGREE TO SUCH TRACT OR TRACTS BEING BROUGHT INTO THE UNIT AREA, THEN UNIT OPERATOR SHALL, AFTER PRELIMINARY CONCURRENCE BY THE COMMISSIONER,
- (1) PREPARE A NOTICE OF PROPOSED EXPANSION DESCRIBING THE CONTEMPLATED CHANGES IN THE BOUNDARIES OF THE UNIT AREA, THE REASON THEREFOR, THE BASIS FOR ADMISSION OF THE ADDITIONAL TRACT OR TRACTS, THE UNIT PARTICIPATION TO BE ASSIGNED THERETO AND THE

PROPOSED EFFECTIVE DATE THEREOF, PREFERABLY THE FIRST DAY OF A MONTH SUBSEQUENT TO THE DAY OF NOTICE; AND

- (2) DELIVER COPIES OF SAID NOTICE TO THE COMMISSIONER, EACH WORKING INTEREST OWNER (MAILING COPY OF SUCH NOTICE TO THE LAST KNOWN ADDRESS OF EACH SUCH WORKING INTEREST OWNER) AND TO THE LESSEE AND LESSOR WHOSE INTERESTS ARE AFFECTED, ADVISING SUCH PARTIES THAT THIRTY (30) DAYS WILL BE ALLOWED FOR SUBMISSION TO THE UNIT OPERATOR OF ANY OBJECTIONS TO SUCH PROPOSED EXPANSIONS; AND
- (3) FILE, UPON THE EXPIRATION OF SAID THIRTY (30) DAY PERIOD AS SET OUT IN ITEM 2 IMMEDIATELY ABOVE, WITH THE COMMISSIONER THE FOLLOWING: (A) EVIDENCE OF MAILING COPIES OF SAID NOTICE OF EXPANSION; (B) AN APPLICATION FOR SUCH EXPANSION; (C) AN INSTRUMENT CONTAINING THE APPROPRIATE JOINDERS IN COMPLIANCE WITH THE PARTICIPATION REQUIREMENT OF SECTION 29, "NONJOINDER AND SUBSEQUENT JOINDER", INFRA; AND (D) COPY OF ANY OBJECTIONS RECEIVED.

THE EXPANSION SHALL, AFTER DUE CONSIDERATION OF ALL PERTINENT INFORMATION AND UPON APPROVAL BY THE COMMISSIONER, BECOME EFFECTIVE AS OF THE DATE PRESCRIBED IN THE NOTICE THEREOF.

3. UNITIZED SUBSTANCES AND RIGHTS: ALL OIL AND GAS IN OR THAT MAY BE PRODUCED FROM THE UNITIZED FORMATION UNDERLYING THE LANDS SUBJECT TO THIS AGREEMENT, TOGETHER WITH THE RIGHT TO USE THE SURFACE OF SAID LANDS FOR THE DEVELOPMENT AND OPERATION OF THE UNITIZED FORMATION ARE UNITIZED UNDER THE TERMS OF THIS AGREEMENT. NOTHING HEREIN SHALL BE CONSTRUED TO UNITIZE, POOL, OR IN ANY WAY AFFECT THE OIL, GAS, AND OTHER MINERALS CONTAINED IN OR THAT MAY BE PRODUCED FROM ANY FORMATION OTHER THAN THE PERMIAN GRAYBURG FORMATION, AS ABOVE DESCRIBED.

4. UNIT OPERATOR: SUNSET INTERNATIONAL PETROLEUM CORPORATION, BEVERLY HILLS, CALIFORNIA, IS HEREBY DESIGNATED AS UNIT OPERATOR AND BY SIGNING THIS INSTRUMENT AS UNIT OPERATOR AGREES AND CONSENTS TO ACCEPT THE DUTIES AND OBLIGATIONS OF UNIT OPERATOR FOR THE OPERATION AND DEVELOPMENT OF THE UNITIZED FORMATION FOR THE 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.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: UNIT OPERATOR SHALL HAVE THE RIGHT TO RESIGN AT ANY TIME, BUT SUCH RESIGNATION SHALL NOT BECOME EFFECTIVE SO AS TO RELEASE UNIT OPERATOR FROM THE DUTIES AND OBLIGATIONS OF UNIT OPERATOR AND TERMINATE UNIT OPERATOR'S RIGHTS AS SUCH FOR A PERIOD OF SIX (6) MONTHS AFTER NOTICE OF INTENTION TO RESIGN HAS BEEN SERVED BY UNIT OPERATOR ON ALL WORKING INTEREST OWNERS AND THE COMMISSIONER, AND UNTIL ALL WELLS THEN SUBJECT HERETO ARE PLACED IN A SATISFACTORY CONDITION FOR SUSPENSION OR ABANDONMENT, UNLESS A NEW UNIT OPERATOR SHALL HAVE TAKEN OVER AND ASSUMED THE DUTIES AND OBLIGATIONS OF UNIT OPERATOR PRIOR TO THE EXPIRATION OF SAID PERIOD.

THE RESIGNATION OF UNIT OPERATOR SHALL NOT RELEASE UNIT OPERATOR FROM ANY LIABILITY FOR ANY DEFAULT BY IT HEREUNDER OCCURRING PRIOR TO THE EFFECTIVE DATE OF ITS RESIGNATION.

THE UNIT OPERATOR MAY BE SUBJECT TO REMOVAL BY EIGHTY-FIVE PER CENT (85%) OF THE COMMITTED WORKING INTERESTS ON THE BASIS OF UNIT PARTICIPATION, IN EFFECT AT THE TIME, EXCLUSIVE OF THE UNIT OPERATOR. SUCH REMOVAL SHALL BE EFFECTIVE UPON NOTICE THEREOF TO THE COMMISSIONER.

IN ALL SUCH INSTANCES OF RESIGNATION OR REMOVAL, UNTIL A SUCCESSOR UNIT OPERATOR IS SELECTED AND APPROVED AS HEREINAFTER PROVIDED, THE WORKING INTEREST OWNERS SHALL BE JOINTLY RESPONSIBLE FOR THE PERFORMANCE OF DUTIES OF THE UNIT

OPERATOR AND SHALL, NOT LATER THAN THIRTY (30) DAYS BEFORE SUCH RESIGNATION OR REMOVAL BECOMES EFFECTIVE, APPOINT A UNIT MANAGER 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 OR ALL EQUIPMENT, MATERIALS, APPURTENANCES, AND ANY OTHER ASSETS, USED IN CONDUCTING THE UNIT OPERATIONS AND OWNED BY THE WORKING INTEREST OWNERS TO THE NEW DULY QUALIFIED SUCCESSOR UNIT OPERATOR OR THE UNIT MANAGER 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 WORKING INTEREST OWNERS SHALL SELECT A SUCCESSOR UNIT OPERATOR BY THE AFFIRMATIVE VOTE OF AT LEAST SEVENTY-FIVE PER CENT (75%) OF THE WORKING INTERESTS ON THE BASIS OF UNIT PARTICIPATION, PROVIDED NO UNIT OPERATOR WHO HAS BEEN REMOVED MAY VOTE FOR SELF SUCCESSION. 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 OR UNIT MANAGER IS SELECTED AND QUALIFIED AS HEREIN PROVIDED, THE COMMISSIONER, AT HIS 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, APPORTIONED AMONG AND BORNE BY THE WORKING INTEREST OWNERS IN ACCORDANCE WITH THE AGREEMENT OR AGREEMENTS ENTERED INTO (SEPARATELY OR COLLECTIVELY) BY AND BETWEEN THE WORKING INTEREST OWNERS. SUCH UNIT OPERATING AGREEMENT SHALL ALSO PROVIDE THE MANNER IN WHICH THE WORKING INTEREST OWNERS SHALL BE ENTITLED TO RECEIVE THEIR RESPECTIVE PROPORTIONATE AND ALLOCATED SHARE OF THE BENEFITS ACCRUING HERETO IN CONFORMITY WITH THEIR UNDERLYING OPERATING AGREEMENTS, LEASES, OR OTHER INDEPENDENT CONTRACTS AND SUCH OTHER RIGHTS AND OBLIGATIONS AS BETWEEN UNIT OPERATOR AND THE WORKING INTEREST OWNERS AS MAY BE AGREED UPON BY THE UNIT OPERATOR AND THE WORKING INTEREST OWNERS; HOWEVER, NO SUCH UNIT OPERATING AGREEMENT SHALL BE DEEMED EITHER TO MODIFY ANY OF THE TERMS AND CONDITIONS OF THIS UNIT AGREEMENT OR TO RELIEVE THE UNIT OPERATOR OF ANY RIGHT OR OBLIGATION ESTABLISHED UNDER THIS UNIT AGREEMENT, AND IN CASE OF ANY INCONSISTENCY OR CONFLICT BETWEEN THE UNIT AGREEMENT AND THE UNIT OPERATING AGREEMENT, THIS UNIT AGREEMENT SHALL PREVAIL. TWO TRUE COPIES OF ANY UNIT OPERATING AGREEMENT EXECUTED PURSUANT TO THIS SECTION SHALL BE FILED WITH THE COMMISSIONER PRIOR TO APPROVAL OF THIS AGREEMENT.

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. PLAN OF OPERATIONS: IT IS RECOGNIZED AND AGREED, BY THE PARTIES HERETO THAT ALL OF THE LAND SUBJECT TO THIS AGREEMENT IS REASONABLY PROVED TO BE PRODUCTIVE OF UNITIZED SUBSTANCES IN PAYING QUANTITIES AND THAT THE OBJECT AND PURPOSE OF THIS AGREEMENT IS TO FORMULATE AND PUT INTO EFFECT A SECONDARY RECOVERY PROJECT IN ORDER TO EFFECT THE GREATEST RECOVERY OF UNITIZED SUBSTANCES, PREVENT WASTE, AND

CONSERVE NATURAL RESOURCES. THE PARTIES HERETO AGREE THAT THE UNIT OPERATOR MAY, SUBJECT TO THE CONSENT AND APPROVAL OF A PLAN OF OPERATION BY THE WORKING INTEREST OWNERS AND THE COMMISSIONER, INJECT INTO THE UNITIZED FORMATION, THROUGH ANY WELL OR WELLS COMPLETED THEREIN, BRINE, WATER, AIR, GAS, OIL, AND ANY ONE OR MORE OTHER SUBSTANCES WHETHER PRODUCED FROM THE UNIT AREA OR NOT, AND THAT THE LOCATION OF INPUT WELLS AND THE RATES OF INJECTION THEREIN AND THE RATE OF PRODUCTION SHALL BE GOVERNED BY STANDARDS OF GOOD GEOLOGIC AND PETROLEUM ENGINEERING PRACTICES AND CONSERVATION METHODS. SUBJECT TO THE LIKE APPROVAL, THE PLAN OF OPERATIONS MAY BE REVISED AS CONDITIONS MAY WARRANT. THE INITIAL PLAN OF OPERATION SHALL BE FILED WITH THE COMMISSIONER CONCURRENTLY WITH THE FILING OF THIS UNIT AGREEMENT FOR FINAL APPROVAL. SAID INITIAL PLAN OF OPERATION AND ALL REVISIONS THEREOF SHALL BE AS COMPLETE AND ADEQUATE AS THE COMMISSIONER MAY DETERMINE TO BE NECESSARY FOR TIMELY OPERATION CONSISTENT HERewith. REASONABLE DILIGENCE SHALL BE EXERCISED IN COMPLYING WITH THE OBLIGATIONS OF THE APPROVED PLAN OF OPERATION.

10. TRACT PARTICIPATION: TRACT PARTICIPATION OF EACH TRACT IS SHOWN ON EXHIBIT "B" BASED UPON A PARTICIPATION FACTOR DEFINED HEREINAFTER BY FORMULA ON 70% ULTIMATE RECOVERY OF 535,000 BBL. (DEFINED IN SECTION 1) AND 30% CURRENT RATE OF PRODUCTION OF 10,370 BBL. (DEFINED IN SECTION 1).

THE TRACT PARTICIPATION FACTOR SHOWN IN EXHIBIT "B" IS DETERMINED IN ACCORDANCE WITH THE FOLLOWING FORMULA:

$$\text{TRACT PARTICIPATION} = \frac{\text{TRACT ULTIMATE RECOVERY}}{\text{TOTAL ULTIMATE RECOVERY}} \times (70\%) + \frac{\text{TRACT CURRENT PRODUCTION}}{\text{TOTAL CURRENT PRODUCTION}} \times (30\%)$$

IF THE UNIT AREA IS ENLARGED OR REDUCED, THE REVISED TRACT PARTICIPATIONS OF THE TRACTS REMAINING IN THE UNIT AREA AND WHICH WERE WITHIN THE UNIT AREA PRIOR TO THE ENLARGEMENT OR REDUCTION SHALL REMAIN IN THE SAME RATIO ONE TO ANOTHER.

11. TRACTS QUALIFIED FOR UNIT PARTICIPATION: ON AND AFTER THE EFFECTIVE DATE HEREOF AND UNTIL THE ENLARGEMENT OR REDUCTION THEREOF, THE UNIT AREA SHALL BE COMPOSED OF THE TRACTS LISTED IN EXHIBIT "B" THAT CORNER OR HAVE A COMMON BOUNDARY (TRACTS SEPARATED ONLY BY A PUBLIC HIGHWAY OR RAILROAD RIGHT OF WAY SHALL BE CONSIDERED TO HAVE A COMMON BOUNDARY), AND THAT OTHERWISE QUALIFY AS FOLLOWS:

- (A) EACH TRACT AS TO WHICH WORKING INTEREST OWNERS OWNING ONE HUNDRED PER CENT (100%) OF THE WORKING INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT AND THE UNIT OPERATING AGREEMENT AND AS TO WHICH ROYALTY OWNERS OWNING ONE HUNDRED PERCENT (100%) OF THE ROYALTY INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT; AND
- (B) EACH TRACT AS TO WHICH WORKING INTEREST OWNERS OWNING NOT LESS THAN NINETY-FIVE PER CENT (95%) OF THE WORKING INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT AND THE UNIT OPERATING AGREEMENT AND AS TO WHICH ROYALTY OWNERS OWNING NOT LESS THAN SEVENTY-FIVE PER CENT (75%) OF THE ROYALTY INTEREST IN SAID TRACT HAVE SIGNED OR RATIFIED THIS AGREEMENT, AND IN WHICH THE WORKING INTEREST OWNERS IN SAID TRACT WHO HAVE SIGNED OR RATIFIED THIS AGREEMENT AND UNIT OPERATING AGREEMENT HAVE AGREED TO INDEMNIFY AND HOLD HARMLESS ALL OTHER PARTIES HERETO, IN A MANNER SATISFACTORY TO THE WORKING INTEREST OWNERS QUALIFIED UNDER (A) AGAINST ANY OR ALL CLAIMS AND DEMANDS THAT MAY BE MADE BY THE NONJOINING OWNERS OF WORKING OR ROYALTY INTERESTS ON ACCOUNT OF THE INCLUSION OF SUCH TRACT IN THE UNIT AREA AND THE OPERATION OF THE UNIT AREA ON THE BASIS HEREIN PROVIDED, AND AS TO WHICH EIGHTY-FIVE PER CENT (85%) OF THE WORKING INTEREST OWNERS QUALIFIED UNDER (A), EXCLUSIVE OF THE WORKING INTEREST OWNER SUBMITTING SUCH TRACT, HAVE APPROVED THE INCLUSION OF SUCH TRACT IN THE UNIT AREA.

IF, ON THE EFFECTIVE DATE OF THIS AGREEMENT, THERE IS ANY TRACT OR TRACTS WHICH HAVE NOT BEEN EFFECTIVELY COMMITTED TO OR MADE SUBJECT TO THIS AGREEMENT BY QUALIFYING AS ABOVE PROVIDED, THEN SUCH TRACT OR TRACTS SHALL NOT BE ENTITLED TO PARTICIPATE HEREUNDER. UNIT OPERATOR SHALL, WHEN SUBMITTING THIS AGREEMENT FOR FINAL APPROVAL BY THE COMMISSIONER, FILE THEREWITH A SCHEDULE OF THOSE TRACTS WHICH HAVE BEEN COMMITTED AND MADE SUBJECT TO THIS AGREEMENT AND ARE ENTITLED TO PARTICIPATE IN THE PRODUCTION FROM THE UNIT AREA HEREUNDER. SAID SCHEDULE SHALL SET FORTH OPPOSITE EACH SUCH COMMITTED TRACT, THE LEASE NUMBER, ASSIGNMENT NUMBER, THE OWNER OF RECORD AND PERCENTAGE PARTICIPATION OF SUCH TRACT WHICH SHALL BE COMPUTED ACCORDING TO THE PARTICIPATION FORMULA SET OUT ABOVE. THIS SCHEDULE SHALL BECOME REVISED EXHIBIT "B" AND ^{UPON} APPROVAL THEREOF BY THE COMMISSIONER, SHALL BECOME A PART OF THIS AGREEMENT AND SHALL GOVERN THE ALLOCATION OF PRODUCTION OF UNITIZED SUBSTANCES UNTIL A NEW SCHEDULE IS FILED AND APPROVED BY THE COMMISSIONER.

12. ALLOCATION OF UNITIZED SUBSTANCES: ALL UNITIZED SUBSTANCES PRODUCED AND SAVED (LESS, SAVE AND EXCEPT ANY PART OF SUCH UNITIZED SUBSTANCES USED IN CONFORMITY WITH GOOD OPERATING PRACTICES WITHIN THE UNIT AREA FOR DRILLING, OPERATING, CAMP, AND OTHER PRODUCTION OR DEVELOPMENT PURPOSES AND FOR PRESSURE MAINTENANCE OR UN-AVOIDABLE LOSS) SHALL BE APPORTIONED AMONG AND ALLOCATED TO THE SEVERAL TRACTS WITHIN THE UNIT AREA IN ACCORDANCE WITH THE RESPECTIVE TRACT PARTICIPATION EFFECTIVE HEREUNDER DURING THE RESPECTIVE PERIODS SUCH UNITIZED SUBSTANCES WERE PRODUCED, AS SET FORTH IN EXHIBIT "B". THE AMOUNT OF UNITIZED SUBSTANCES SO ALLOCATED TO EACH TRACT, AND ONLY THAT AMOUNT, REGARDLESS OF WHETHER IT BE MORE OR LESS THAN THE AMOUNT OF THE ACTUAL PRODUCTION OF UNITIZED SUBSTANCES FROM THE WELL OR WELLS, IF ANY, ON SUCH TRACT SHALL, FOR ALL INTENTS, USES, AND PURPOSES, BE DEEMED TO HAVE BEEN PRODUCED FROM SUCH TRACT.

THE UNITIZED SUBSTANCES ALLOCATED TO EACH TRACT SHALL BE DISTRIBUTED AMONG, OR ACCOUNTED FOR TO THE PARTIES EXECUTING, CONSENTING TO, OR RATIFYING THIS AGREEMENT ENTITLED TO SHARE IN THE PRODUCTION FROM SUCH TRACT IN THE SAME MANNER, IN THE SAME PROPORTIONS, AND UPON THE SAME CONDITIONS AS THEY WOULD HAVE PARTICIPATED AND SHARED IN THE PRODUCTION FROM SUCH TRACTS, OR IN THE PROCEEDS THEREOF, HAD THIS AGREEMENT NOT BEEN ENTERED INTO, AND WITH THE SAME LEGAL FORCE AND EFFECT.

NOTHING HEREIN CONTAINED SHALL BE CONSTRUED AS RETROACTIVELY AFFECTING THE OWNERSHIP OF, OR AS REQUIRING ANY RETROACTIVE ADJUSTMENT FOR, PRODUCTION OF OIL OR GAS OBTAINED PRIOR TO THE EFFECTIVE DATE OF THIS AGREEMENT, OR PRIOR TO THE EFFECTIVE DATE OF THE JOINDER OF ANY TRACT, OR THE COMMITMENT OF ANY INTEREST HERETO.

NO TRACT COMMITTED TO THIS AGREEMENT AND QUALIFIED FOR PARTICIPATION AS ABOVE PROVIDED SHALL BE SUBSEQUENTLY EXCLUDED FROM PARTICIPATION HEREUNDER ON ACCOUNT OF THE DEPLETION OF UNITIZED SUBSTANCES.

IF ANY WORKING INTEREST OR ROYALTY INTEREST IN ANY TRACT IS OR BECOMES DIVIDED AND OWNED IN SEVERALTY AS TO DIFFERENT PARTS OF THE TRACT, THE PERCENTAGE PARTICIPATION ATTRIBUTABLE TO SUCH INTEREST, IN THE ABSENCE OF RECORDABLE INSTRUMENT EXECUTED BY THE OWNERS OF THE DIVIDED INTEREST AND FURNISHED TO THE UNIT OPERATOR PROVIDING FOR A DIFFERENT DIVISION, SHALL BE DIVIDED AMONG THE SEPARATE OWNERS IN PROPORTION TO THE SURFACE ACRES OF THEIR RESPECTIVE PARTS OF THE TRACTS.

THE UNITIZED SUBSTANCES ALLOCATED TO EACH TRACT SHALL BE DELIVERED IN KIND TO THE RESPECTIVE PARTIES ENTITLED THERETO BY VIRTUE OF THE OWNERSHIP OF OIL AND GAS RIGHTS THEREIN OR BY PURCHASE FROM SUCH OWNERS. EACH WORKING INTEREST OWNER AND THE PARTIES ENTITLED THERETO SHALL HAVE THE CONTINUING RIGHT TO RECEIVE SUCH PRODUCTION IN KIND AT A COMMON POINT WITHIN THE UNIT AREA AND TO SELL OR DISPOSE OF THE SAME AS IT SEES FIT. SUCH PARTY SHALL HAVE THE RIGHT TO CONSTRUCT, MAINTAIN, AND OPERATE WITHIN THE UNIT AREA ALL NECESSARY FACILITIES FOR THAT PURPOSE, PROVIDED THE SAME ARE SO CONSTRUCTED, MAINTAINED, AND OPERATED NOT TO INTERFERE WITH OPERATIONS CARRIED ON PURSUANT HERETO. SUBJECT TO SECTION 13 HEREOF, ROYALTY SETTLEMENT, ANY EXTRA EXPENDITURES INCURRED BY UNIT OPERATOR BY REASON OF DELIVERY IN KIND OF ANY PORTION OF THE UNITIZED SUBSTANCES SHALL BE BORNE BY THE PARTY RECEIVING THE SAME IN KIND. IN THE EVENT ANY PARTY HERETO SHALL FAIL TO TAKE OR OTHERWISE ADEQUATELY DISPOSE OF ITS PROPORTIONATE SHARE OF THE UNITIZED SUBSTANCES FROM THE UNIT AREA CURRENTLY AS AND WHEN PRODUCED, THEN SO LONG AND ONLY SO LONG, AS SUCH CONDI-

TIONS CONTINUE, UNIT OPERATOR, FOR THE ACCOUNT AND AT THE EXPENSE OF SUCH PARTY IN ORDER TO AVOID CURTAILING THE OPERATION OF THE UNIT AREA, MAY SELL OR ITSELF PURCHASE SUCH PRODUCTION ON A DAY-TO-DAY BASIS AT NOT LESS THAN THE PREVAILING MARKET PRICE IN THE AREA FOR LIKE PRODUCTION, AND THE ACCOUNT OF SUCH PARTY SHALL BE CHARGED THEREWITH AS HAVING RECEIVED THE SAME. THE PROCEEDS, IF ANY, OF THE UNITIZED SUBSTANCES SO DISPOSED OF BY UNIT OPERATOR, SHALL BE PAID TO THE PARTY ENTITLED THERETO; NOTWITHSTANDING THE FOREGOING UNIT OPERATOR SHALL NOT MAKE A SALE INTO INTERSTATE COMMERCE OF ANY OTHER PARTY'S SHARE OF GAS PRODUCTION WITHOUT FIRST GIVING SUCH OTHER PARTY SIXTY (60) DAYS' NOTICE OF SUCH INTENDED SALE.

ANY PARTY RECEIVING IN KIND OR SEPARATELY DISPOSING OF ALL OR ANY PART OF THE UNITIZED SUBSTANCES ALLOCATED TO ANY TRACT, OR RECEIVING THE PROCEEDS THEREFROM IF THE SAME IS SOLD OR PURCHASED BY UNIT OPERATOR, SHALL BE RESPONSIBLE FOR THE PAYMENT OF ALL ROYALTIES, OVERRIDING ROYALTIES, OIL PAYMENTS, NET PROFIT CONTRACTS, AND ALL PAYMENTS OUT OF OR BURDENS ON THE LEASE OR LEASES AND TRACTS CONTRIBUTED BY IT AND RECEIVED INTO THE UNIT AREA AND EACH SUCH PARTY SHALL HOLD EACH OTHER PARTY HERETO HARMLESS AGAINST ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION FOR SUCH ROYALTIES, OVERRIDING ROYALTIES, OIL PAYMENTS, NET PROFIT CONTRACTS, AND OTHER PAYMENTS OUT OF OR BURDENS ON THE LEASE OR LEASES AND TRACTS CONTRIBUTED BY IT TO THE UNIT AREA.

IF, AFTER THE EFFECTIVE DATE OF THIS AGREEMENT, THERE IS ANY TRACT OR TRACTS THAT ARE SUBSEQUENTLY COMMITTED HERETO, AS ABOVE PROVIDED IN SECTION 2, UNIT AREA AND PARTICIPATION, OR ANY TRACT OR TRACTS WITHIN THE UNIT AREA NOT EFFECTIVELY COMMITTED HERETO AS OF THE EFFECTIVE DATE HEREOF BUT WHICH ARE SUBSEQUENTLY COMMITTED HERETO UNDER THE PROVISIONS OF SECTION 29, NONJOINDER AND SUBSEQUENT JOINDER, OR IF ANY TRACT IS EXCLUDED FROM THE UNIT AREA AS PROVIDED FOR IN SECTION 28, LOSS OF TITLE, THE SCHEDULE OF PARTICIPATION AS SHOWN IN EXHIBIT "B" SHALL BE REVISED BY THE WORKING INTEREST OWNERS TO SHOW THE NEW PERCENTAGE PARTICIPATION OF ALL OF THE THEN EFFECTIVELY COMMITTED TRACTS AND THE REVISED EXHIBIT "B" UPON APPROVAL BY THE COMMISSIONER UNDER SECTION 28, LOSS OF TITLE, AND SECTION 29, NONJOINDER AND SUBSEQUENT JOINDER, AND UPON APPLICATION BY THE COMMISSIONER UNDER SECTION 2, UNIT AREA AND PARTICIPATION, SHALL GOVERN THE ALLOCATION OF UNITIZED SUBSTANCES FROM AND AFTER THE EFFECTIVE DATE THEREOF UNTIL A NEW SCHEDULE IS SO APPROVED.

13. ROYALTY SETTLEMENT: THE STATE OF NEW MEXICO AND ALL ROYALTY OWNERS WHO, UNDER EXISTING CONTRACT, 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 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, DIVISION ORDERS, LAWS, AND REGULATIONS, ON OR BEFORE THE LAST DAY OF EACH MONTH FOR UNITED SUBSTANCES PRODUCED DURING THE PRECEDING CALENDAR MONTH; PROVIDED, HOWEVER, THAT NOTHING HEREIN CONTAINED SHALL OPERATE TO RELIEVE THE LESSEES OF ANY LAND FROM THEIR RESPECTIVE LEASE OBLIGATIONS FOR THE PAYMENT OF ANY ROYALTIES DUE UNDER THEIR LEASES, EXCEPT THAT SUCH ROYALTIES SHALL BE COMPUTED IN ACCORDANCE WITH THE TERMS OF THIS UNIT AGREEMENT.

IF GAS OBTAINED FROM LANDS OR FORMATIONS NOT SUBJECT TO THIS AGREEMENT IS INTRODUCED INTO THE UNITIZED LAND FOR USE IN PRESSURE MAINTENANCE, STIMULATION OF PRODUCTION, OR INCREASING ULTIMATE RECOVERY, WHICH SHALL BE IN CONFORMITY WITH A PLAN FIRST APPROVED BY THE COMMISSIONER, A LIKE AMOUNT OF GAS LESS APPROPRIATE DEDUCTIONS FOR LOSS FROM ANY CAUSE MAY BE WITHDRAWN FROM THE FORMATION INTO WHICH THE GAS WAS INTRODUCED, ROYALTY FREE AS TO DRY GAS, BUT NOT AS TO THE PRODUCTS EXTRACTED THEREFROM; PROVIDED THAT SUCH WITHDRAWAL SHALL BE PURSUANT TO SUCH CONDITIONS AND FORMULAS AS MAY BE PRESCRIBED OR APPROVED BY THE COMMISSIONER AS CONFORMING TO GOOD PETROLEUM ENGINEERING PRACTICE; AND, PROVIDED FURTHER THAT SUCH RIGHT OF WITHDRAWAL SHALL TERMINATE ON THE TERMINATION OF THIS AGREEMENT.

IF LIQUEFIED PETROLEUM GASES OBTAINED FROM LANDS OR FORMATIONS NOT SUBJECT TO THIS AGREEMENT BE INJECTED INTO THE UNITIZED LAND FOR THE PURPOSE

OF INCREASING ULTIMATE RECOVERY, WHICH SHALL BE IN CONFORMANCE WITH A PLAN FIRST APPROVED BY THE COMMISSIONER, PART OR ALL OF SUCH LIQUEFIED PETROLEUM GASES, MAY BE WITHDRAWN ROYALTY FREE PURSUANT TO SUCH CONDITIONS AND FORMULAS AS MAY BE PRESCRIBED OR APPROVED BY THE COMMISSIONER.

ALL ROYALTIES DUE THE STATE OF NEW MEXICO AND THE OTHER ROYALTY OWNERS HEREUNDER SHALL BE COMPUTED AND PAID ON THE BASIS OF ALL UNITIZED SUBSTANCES ALLOCATED TO THE RESPECTIVE TRACT OR TRACTS COMMITTED HERETO, IN LIEU OF ACTUAL PRODUCTION FROM SUCH TRACT OR TRACTS.

EACH ROYALTY OWNER (OTHER THAN THE STATE OF NEW MEXICO) THAT EXECUTES THIS AGREEMENT, REPRESENTS AND WARRANTS THAT IT IS THE OWNER OF A ROYALTY INTEREST IN A TRACT OR TRACTS WITHIN THE UNIT AREA AS ITS INTEREST APPEARS IN EXHIBIT "B", ATTACHED HERETO. IF ANY ROYALTY INTEREST IN A TRACT OR TRACTS SHOULD BE LOST BY TITLE FAILURE IN WHOLE OR IN PART, DURING THE TERM OF THIS AGREEMENT, THEN THE ROYALTY INTEREST OF THE PARTY REPRESENTING HIMSELF TO BE THE OWNER THEREOF SHALL BE REDUCED PROPORTIONATELY AND THE INTEREST OF ALL PARTIES SHALL BE ADJUSTED ACCORDINGLY.

14. OIL IN LEASE TANKS ON EFFECTIVE DATE: UNIT OPERATOR SHALL MAKE/^APROPER AND TIMELY GAUGE OF ALL LEASE AND OTHER TANKS WITHIN THE UNIT AREA IN ORDER TO ASCERTAIN THE AMOUNT OF MERCHANTABLE OIL ABOVE THE PIPE LINE CONNECTION, IN SUCH TANKS AS OF 7:00 O'CLOCK A. M. ON THE EFFECTIVE DATE HEREOF. ALL SUCH OIL WHICH HAS BEEN PRODUCED LEGALLY SHALL BE AND REMAIN THE PROPERTY OF THE WORKING INTEREST OWNERS ENTITLED THERETO THE SAME AS IF THE UNIT HAD NOT BEEN FORMED; AND SUCH WORKING INTEREST OWNERS SHALL PROMPTLY REMOVE SAID OIL FROM THE UNIT AREA. ANY SUCH OIL NOT SO REMOVED SHALL BE SOLD BY UNIT OPERATOR FOR THE ACCOUNT OF SUCH WORKING INTEREST OWNERS, SUBJECT TO THE PAYMENT OF ALL ROYALTY TO ROYALTY OWNERS UNDER THE TERMS AND PROVISIONS OF THE APPLICABLE LEASE OR LEASES AND OTHER CONTRACTS.

15. REPORTS: UNIT OPERATOR SHALL FURNISH THE COMMISSIONER, MONTHLY, INJECTION AND PRODUCTION REPORTS FOR EACH WELL IN THE UNIT AREA, AS WELL AS PERIODICAL REPORTS OF THE DEVELOPMENT AND OPERATION OF THE UNIT AREA.

16. RENTAL SETTLEMENT: RENTALS OR MINIMUM ROYALTIES DUE ON LEASES COMMITTED HERETO SHALL BE PAID BY WORKING INTEREST OWNERS RESPONSIBLE THEREFOR UNDER EXISTENT CONTRACTS, LAWS, AND REGULATIONS PROVIDED THAT NOTHING HEREIN CONTAINED SHALL OPERATE TO RELIEVE THE LESSEES OF ANY LAND FROM THEIR RESPECTIVE LEASE OBLIGATIONS FOR THE PAYMENT OF ANY RENTAL OR MINIMUM ROYALTY IN LIEU THEREOF DUE UNDER THEIR LEASES. RENTAL FOR LANDS OF THE STATE OF NEW MEXICO, SUBJECT TO THIS AGREEMENT, SHALL BE PAID AT THE RATE SPECIFIED IN THE RESPECTIVE LEASES FROM THE STATE OF NEW MEXICO.

17. 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.

18. DRAINAGE: THE UNIT OPERATOR SHALL TAKE APPROPRIATE AND ADEQUATE MEASURES TO PREVENT DRAINAGE OF UNITIZED SUBSTANCES FROM UNITIZED FORMATION BY WELLS ON LAND NOT SUBJECT TO THIS AGREEMENT.

19. LEASES AND CONTRACTS CONFORMED AND EXTENDED: THE TERMS, CONDITIONS, AND PROVISIONS OF ALL LEASES, SUBLEASES, UNIT AGREEMENTS 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 COMMISSIONER SHALL, AND BY HIS APPROVAL HEREOF, OR BY THE APPROVAL HEREOF BY HIS DULY AUTHORIZED REPRESENTATIVE, DOES HEREBY ESTABLISH, ALTER, CHANGE, OR REVOKE THE DRILLING, PRODUCING, RENTAL, MINIMUM ROYALTY, OR ROYALTY REQUIREMENTS OF STATE LEASES COMMITTED HERETO AND THE REGULATIONS IN RESPECT THERETO TO CONFORM SAID REQUIREMENTS TO THE PROVISIONS OF THIS AGREEMENT. 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, PRODUCING, OR SECONDARY RECOVERY OPERATIONS PERFORMED HEREUNDER UPON ANY TRACT OF UNITIZED LAND WILL BE ACCEPTED AND DEEMED TO BE PERFORMED UPON AND FOR THE BENEFIT OF EACH AND EVERY TRACT OF UNITIZED LAND, AND NO LEASE SHALL BE DEEMED TO EXPIRE BY REASON OF FAILURE TO DRILL OR PRODUCE WELLS SITUATED ON LAND THEREIN EMBRACED.
- (C) SUSPENSION OF DRILLING OR PRODUCING OPERATIONS ON ALL UNITIZED LANDS PURSUANT TO DIRECTION OR CONSENT OF THE COMMISSIONER, OR HIS DULY AUTHORIZED REPRESENTATIVE, SHALL BE DEEMED TO CONSTITUTE SUCH SUSPENSION PURSUANT TO SUCH DIRECTION OR CONSENT AS TO EACH AND EVERY TRACT OF UNITIZED LANDS.
- (D) EACH LEASE, SUBLEASE, UNIT AGREEMENT, OR CONTRACT RELATING TO THE EXPLORATION, DRILLING, DEVELOPMENT, OR OPERATION FOR OIL AND GAS 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.
- (E) TERMINATION OF THIS AGREEMENT SHALL NOT AFFECT ANY LEASE WHICH, PURSUANT TO THE TERMS THEREOF OR ANY APPLICABLE LAWS, SHALL CONTINUE IN FORCE AND EFFECT THEREAFTER.
- (F) 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.
- (G) 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 LAND COMMITTED AND AS TO THE LAND NOT COMMITTED AND THE TERMS OF SUCH LEASES SHALL APPLY SEPARATELY AS TO SUCH SEGREGATED PORTIONS COMMENCING AS OF THE EFFECTIVE DATE HEREOF. PROVIDED, HOWEVER, THAT NOTWITHSTANDING ANY OF THE PROVISIONS OF THIS AGREEMENT TO THE CONTRARY, SUCH LEASE SHALL CONTINUE IN FULL FORCE AND EFFECT BEYOND THE TERM PROVIDED THEREIN AS TO ALL LANDS EMBRACED IN SUCH LEASE IF OIL OR GAS IS, OR HAS HERETOFORE BEEN, DISCOVERED IN PAYING QUANTITIES ON SOME PART OF THE LANDS EMBRACED IN SUCH LEASE COMMITTED TO THIS AGREEMENT, OR, SO LONG AS A PORTION OF THE UNITIZED SUBSTANCES PRODUCED FROM THE UNIT AREA IS, UNDER THE TERMS OF THIS AGREEMENT, ALLOCATED TO THE PORTION OF THE LANDS COVERED BY SUCH LEASE COMMITTED TO THIS AGREEMENT, OR, AT ANY TIME DURING THE TERM HEREOF, AS TO ANY LEASE THAT IS THEN VALID AND SUBSISTING AND UPON WHICH THE LESSEE OR THE UNIT OPERATOR IS THEN ENGAGED IN BONA FIDE DRILLING, REWORKING, OR SECONDARY RECOVERY OPERATIONS ON ANY PART OF THE LANDS EMBRACED IN SUCH LEASE, THEN THE SAME AS TO ALL LANDS EMBRACED THEREIN SHALL REMAIN IN FULL FORCE AND EFFECT SO LONG AS SUCH OPERATIONS ARE 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 OR GAS IN PAYING QUANTITIES IS BEING

PRODUCED FROM ANY PORTION OF SAID LANDS.

20. MATHEMATICAL ERRORS: IT IS HEREBY AGREED BY ALL PARTIES TO THE AGREEMENT THAT UNIT OPERATOR SHALL BE EMPOWERED TO CORRECT ANY MATHEMATICAL ERRORS WHICH MIGHT EXIST IN THE PERTINENT EXHIBITS TO THIS AGREEMENT UPON APPROVAL OF THE COMMISSIONER.

21. 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 SUBJECT HERETO SHALL BE BINDING UPON UNIT OPERATOR UNTIL THE FIRST DAY OF THE CALENDAR MONTH AFTER UNIT OPERATOR IS FURNISHED WITH THE ORIGINAL, PHOTOSTATIC, OR CERTIFIED COPY OF THE INSTRUMENT OF TRANSFER; AND NO ASSIGNMENT OR TRANSFER OF ANY ROYALTY INTEREST SUBJECT THERETO SHALL BE BINDING UPON THE WORKING INTEREST OWNER RESPONSIBLE THEREFOR UNTIL THE FIRST DAY OF THE CALENDAR MONTH AFTER SAID WORKING INTEREST OWNER IS FURNISHED WITH THE ORIGINAL, PHOTOSTATIC, OR CERTIFIED COPY OF THE INSTRUMENT OF TRANSFER.

22. EFFECTIVE DATE AND TERM: THIS AGREEMENT SHALL BECOME BINDING UPON EACH PARTY WHO EXECUTES OR RATIFIES IT AS OF THE DATE OF EXECUTION OR RATIFICATION BY SUCH PARTY AND SHALL BECOME EFFECTIVE AS OF 7:00 O'CLOCK A.M. ON THE FIRST DAY OF THE CALENDAR MONTH NEXT FOLLOWING:

- (A) THE EXECUTION OR RATIFICATION OF THIS AGREEMENT AND THE UNIT OPERATING AGREEMENT BY WORKING INTEREST OWNERS OWNING A COMBINED UNIT PARTICIPATION OF AT LEAST EIGHTY-FIVE PER CENT (85%), AND THE EXECUTION OR RATIFICATION OF THIS AGREEMENT BY ROYALTY OWNERS OWNING A COMBINED INTEREST OF AT LEAST SEVENTY-FIVE PER CENT (75%) OF THE ROYALTY INTEREST IN THE LANDS DESCRIBED IN SECTION 2 OF THIS AGREEMENT;
- (B) THE APPROVAL OF THIS AGREEMENT BY THE COMMISSIONER AND THE COMMISSION;
- (C) THE FILING OF AT LEAST ONE COUNTERPART OF THIS AGREEMENT FOR THE RECORD IN THE RECORDS OF LEA COUNTY, NEW MEXICO, BY UNIT OPERATOR; AND PROVIDED FURTHER, THAT IF (A), (B), AND (C) ARE NOT ACCOMPLISHED ON OR BEFORE MARCH 1, 1965, THIS AGREEMENT SHALL IP SO FACTO TERMINATE ON SAID DATE (HEREINAFTER CALLED "TERMINATION DATE") AND THEREAFTER BE OF NO FURTHER FORCE OR EFFECT, UNLESS PRIOR THERETO THIS AGREEMENT HAS BEEN EXECUTED OR RATIFIED BY WORKING INTEREST OWNERS OWNING A COMBINED UNIT PARTICIPATION OF AT LEAST NINETY PER CENT (90%), AND WORKING INTEREST OWNERS OWNING A COMBINED UNIT PARTICIPATION OF AT LEAST NINETY PER CENT (90%) COMMITTED TO THIS AGREEMENT HAVE DECIDED TO EXTEND SAID TERMINATION DATE FOR A PERIOD NOT TO EXCEED SIX (6) MONTHS. IF SAID TERMINATION DATE IS SO EXTENDED AND (A), (B), AND (C) ARE NOT ACCOMPLISHED ON OR BEFORE SAID EXTENDED TERMINATION DATE, THIS AGREEMENT SHALL IP SO FACTO TERMINATE ON SAID EXTENDED TERMINATION DATE AND THEREAFTER BE OF NO FURTHER FORCE OR EFFECT. FOR THE PURPOSE OF THIS SECTION, OWNERSHIP SHALL BE COMPUTED ON THE BASIS OF UNIT PARTICIPATION. UNIT OPERATOR SHALL, WITHIN THIRTY (30) DAYS AFTER THE EFFECTIVE DATE OF THIS AGREEMENT, FILE FOR THE RECORD IN THE OFFICE OR OFFICES WHERE A COUNTERPART OF THIS AGREEMENT IS RECORDED, A CERTIFICATE TO THE EFFECT THAT THIS AGREEMENT HAS BECOME EFFECTIVE ACCORDING TO ITS TERMS AND STATING FURTHER THE EFFECTIVE DATE.

THE TERM OF THIS AGREEMENT SHALL BE FOR AND DURING THE TIME THAT UNITIZED SUBSTANCES ARE PRODUCED IN PAYING QUANTITIES FROM THE UNIT AREA AND AS LONG

THERAFTER AS DRILLING, REWORKING, OR OTHER OPERATIONS (INCLUDING SECONDARY RECOVERY) ARE PROSECUTED THEREON WITHOUT CESSATION OF MORE THAN NINETY (90) CONSECUTIVE DAYS, UNLESS SOONER TERMINATED BY WORKING INTEREST OWNERS IN THE MANNER HEREINAFTER PROVIDED. THIS AGREEMENT MAY BE TERMINATED BY WORKING INTEREST OWNERS OF NINETY PER CENT (90%) UNIT PARTICIPATION WHENEVER SUCH WORKING INTEREST OWNERS DETERMINE THAT UNIT OPERATIONS ARE NO LONGER PROFITABLE, FEASIBLE, OR IN THE INTEREST OF CONSERVATION, WITH THE APPROVAL OF THE COMMISSION AND THE COMMISSIONER. NOTICE OF ANY SUCH APPROVAL TO BE GIVEN BY UNIT OPERATOR TO ALL PARTIES HERETO.

UPON TERMINATION OF THIS AGREEMENT, THE FURTHER DEVELOPMENT AND OPERATION OF THE UNIT AREA AS A UNIT SHALL BE ABANDONED, UNIT OPERATIONS SHALL CEASE, AND HEREAFTER THE PARTIES HERETO SHALL BE GOVERNED BY THE TERMS AND PROVISIONS OF THE LEASES AND CONTRACTS AFFECTING THE SEPARATE TRACTS JUST AS IF THE AGREEMENT HAD NEVER BEEN ENTERED INTO.

IF NOT OTHERWISE COVERED BY THE LEASES UNITIZED UNDER THIS AGREEMENT, ROYALTY OWNERS HEREBY GRANT WORKING INTEREST OWNERS A PERIOD OF THREE (3) MONTHS AFTER TERMINATION OF THIS AGREEMENT IN WHICH TO SALVAGE, SELL, DISTRIBUTE, OR OTHERWISE DISPOSE OF THE PERSONAL PROPERTY AND FACILITIES USED IN CONNECTION WITH UNIT OPERATIONS.

23. RATE OF PRODUCTION: ALL PRODUCTION AND THE DISPOSAL THEREOF SHALL BE IN CONFORMITY WITH ALLOCATIONS AND QUOTAS MADE OR FIXED BY THE COMMISSION AND IN CONFORMITY WITH ALL APPLICABLE LAWS AND LAWFUL REGULATIONS.

24. APPEARANCES: UNIT OPERATOR SHALL, AFTER NOTICE TO THE OTHER PARTIES AFFECTED, HAVE THE RIGHT TO APPEAR FOR OR ON BEHALF OF ANY AND ALL INTERESTS AFFECTED HEREBY BEFORE THE COMMISSIONER OF PUBLIC LANDS, AND THE NEW MEXICO OIL CONSERVATION COMMISSION, AND TO APPEAL FROM ORDER ISSUED UNDER THE REGULATIONS OF SAID COMMISSIONER, OR COMMISSION, OR TO APPLY FOR RELIEF FROM ANY OF SAID REGULATIONS OR IN ANY PROCEEDINGS RELATIVE TO OPERATIONS BEFORE THE SAID COMMISSIONER, OR COMMISSION, OR ANY OTHER LEGALLY CONSTITUTED AUTHORITY, PROVIDED, HOWEVER, THAT THE OTHER INTERESTED PARTY SHALL ALSO HAVE THE RIGHT, AT HIS OWN EXPENSE, TO BE HEARD IN ANY SUCH PROCEEDINGS.

25. 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 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.

26. NO WAIVER OF CERTAIN RIGHTS: NOTHING CONTAINED IN THIS AGREEMENT SHALL BE CONSTRUED AS A WAIVER BY ANY PARTY HERETO OF THE RIGHT TO ASSERT ANY LEGAL OR CONSTITUTIONAL RIGHT OR DEFENSE AS TO THE VALIDITY OR INVALIDITY OF ANY LAW OF THE STATE 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.

27. 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 ACCIDENT, 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.

28. LOSS OF TITLE: IN THE EVENT TITLE TO ANY TRACT OF UNITIZED LAND SHALL FAIL IN WHOLE OR IN PART AND THE TRUE OWNER CANNOT BE INDUCED TO JOIN THIS UNIT AGREEMENT, SUCH TRACT SHALL BE AUTOMATICALLY REGARDED AS NOT COMMITTED HERETO AND THERE SHALL BE SUCH READJUSTMENT OF FUTURE COSTS AND BENEFITS AS MAY BE RE-

QUIRED 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 STATE LAND OR LEASES, NO PAYMENTS OF FUNDS DUE THE STATE OF NEW MEXICO SHOULD BE WITHHELD, BUT SUCH FUNDS SHALL BE DEPOSITED AS DIRECTED BY THE COMMISSIONER OF PUBLIC LANDS OF THE STATE OF NEW MEXICO, 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. NONJOINDER AND SUBSEQUENT JOINDER: IF THE OWNER OF ANY SUBSTANTIAL INTEREST IN A TRACT WITHIN THE UNIT AREA FAILS OR REFUSES TO SUBSCRIBE OR CONSENT IN WRITING TO THIS AGREEMENT, THE WORKING INTEREST OWNER IN THAT TRACT WHO HAS EXECUTED OR RATIFIED THIS AGREEMENT MAY WITHDRAW SAID TRACT FROM THIS AGREEMENT BY WRITTEN NOTICE TO THE UNIT OPERATOR, OR SUCH TRACT MAY BE INCLUDED IN THE UNIT AREA IF THE SAME CAN BE AND IS QUALIFIED AS PROVIDED IN SECTION 11 HEREOF, TRACTS QUALIFIED FOR UNIT PARTICIPATION. SUCH WITHDRAWAL AS ABOVE PROVIDED, SHALL, WITHOUT FURTHER ACTION, ALSO OPERATE TO WITHDRAW ALL ROYALTY INTEREST IN SUCH TRACT OR TRACTS THERETOFORE COMMITTED HERETO. JOINDER IN THE UNIT AGREEMENT BY A WORKING INTEREST OWNER, AT ANY TIME, MUST BE ACCOMPANIED BY APPROPRIATE JOINDER TO THE UNIT OPERATING AGREEMENT IN ORDER FOR THE INTEREST TO BE REGARDED AS EFFECTIVELY COMMITTED TO THIS UNIT AGREEMENT.

ANY OIL OR GAS INTEREST IN THE UNITIZED FORMATION IN LANDS WITHIN THE UNIT AREA NOT COMMITTED HERETO PRIOR TO SUBMISSION OF THIS AGREEMENT TO THE COMMISSIONER FOR FINAL APPROVAL, MAY THEREAFTER BE COMMITTED HERETO UPON COMPLIANCE WITH THE APPLICABLE PROVISIONS OF SECTION 11 HEREOF, AT ANY TIME UP TO THE EFFECTIVE DATE HEREOF AND FOR A PERIOD OF SIX (6) MONTHS THEREAFTER, ON THE SAME BASIS OF PARTICIPATION AS PROVIDED FOR IN SECTION 11 BY THE OWNER OR OWNERS THEREOF SUBSCRIBING OR CONSENTING IN WRITING TO THIS AGREEMENT AND, IF THE INTEREST IS A WORKING INTEREST, BY THE OWNER OF SUCH INTEREST SUBSCRIBING ALSO TO THE UNIT OPERATING AGREEMENT.

IT IS UNDERSTOOD AND AGREED, HOWEVER, THAT AFTER SIX (6) MONTHS FROM THE EFFECTIVE DATE HEREOF, THE RIGHT OF SUBSEQUENT JOINDER AS PROVIDED IN THIS SECTION SHALL BE SUBJECT TO SUCH REQUIREMENTS OR APPROVALS AND ON SUCH BASIS AS MAY BE AGREED UPON BY NINETY PER CENT (90%) OF THE WORKING INTEREST OWNERS. SUCH JOINDER BY A ROYALTY OWNER MUST BE EVIDENCED BY HIS EXECUTION OR RATIFICATION OF THIS UNIT AGREEMENT AND MUST BE CONSENTED TO IN WRITING BY THE WORKING INTEREST OWNER RESPONSIBLE FOR THE PAYMENT OF ANY BENEFITS THAT MAY ACCRUE HEREUNDER IN BEHALF OF SUCH ROYALTY OWNER. EXCEPT AS MAY OTHERWISE HEREIN BE PROVIDED, SUBSEQUENT JOINDER TO THIS AGREEMENT SHALL BE EFFECTIVE AT 7:00 O'CLOCK A. M. AS OF THE FIRST DAY OF THE MONTH FOLLOWING THE FILING WITH THE COMMISSION AND THE COMMISSIONER OF DULY EXECUTED COUNTERPARTS OF ALL OR ANY PAPERS NECESSARY TO ESTABLISH EFFECTIVE COMMITMENT OF ANY TRACT TO THIS AGREEMENT AND APPROVED BY 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 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.

31. TAXES: EACH PARTY HERETO SHALL, FOR ITS OWN ACCOUNT, RENDER AND PAY ITS SHARE OF ANY TAXES LEVIED AGAINST OR MEASURED BY THE AMOUNT OR VALUE OF THE UNITIZED SUBSTANCES PRODUCED FROM THE UNIT AREA; PROVIDED, HOWEVER, THAT IF IT IS REQUIRED OR IF IT BE DETERMINED THAT THE UNIT OPERATOR OR THE SEVERAL WORKING INTEREST OWNERS MUST PAY OR ADVANCE SAID TAXES FOR THE ACCOUNT OF THE PARTIES HERETO, IT IS HEREBY EXPRESSLY AGREED THAT THE PARTIES SO PAYING OR ADVANCING SAID TAXES SHALL BE REIMBURSED THEREFOR BY THE PARTIES HERETO, INCLUDING ROYALTY

OWNERS, WHO MAY BE RESPONSIBLE FOR THE TAXES ON THEIR RESPECTIVE ALLOCATED SHARE OF THE UNITIZED SUBSTANCES. NO SUCH TAXES SHALL BE CHARGED TO THE STATE OF NEW MEXICO OR TO ANY LESSOR WHO HAS A CONTRACT WITH HIS LESSEE WHICH REQUIRES THE LESSEE TO PAY SUCH TAXES.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE CAUSED THIS AGREEMENT TO BE EXECUTED AND HAVE SET OPPOSITE THEIR RESPECTIVE NAMES, THE DATE OF EXECUTION.

NAME DATE SIGNED

ATTEST, IF A CORPORATION OR WITNESS, IF AN INDIVIDUAL

SUNSET INTERNATIONAL PETROLEUM CORPORATION

ATTEST:

By Harold A. Svoboda 1-15-65
VICE PRESIDENT

By [Signature]
Asst. SECRETARY

Address SUNSET INTERNATIONAL PETROLEUM CORPORATION
SUNSET INTERNATIONAL BUILDING
400 S. BEVERLY DRIVE
BEVERLY HILLS, CALIFORNIA

CARPER DRILLING COMPANY, INC.

ATTEST:

By Marshall Rowley 1-14-65
TITLE Marshall Rowley, Exec. Vice-Pres.

By Blanche A. Caskey
SECRETARY

Address 200 Carper Bldg
Albany, New Mexico

PHILLIPS PETROLEUM COMPANY

ATTEST:

By J. O. Probst Jan. 11, 1965
TITLE Vice President
Address [Signature]

By [Signature] City
Asst. SECRETARY

Bartholomew, Okla.

INDIVIDUAL

WITNESS:

Charles P. Miller
CHARLES P. MILLER

Robert W. Arrendale

JOINT OVER-RIDING ROYALTY INTERESTS

WITNESS:

Charles P. Miller AND
CHARLES P. MILLER

Robert W. Arrendale

Iris Miller HIS WIFE

Robert W. Arrendale

STATE OF California
COUNTY OF Los Angeles

CORPORATION ACKNOWLEDGEMENT

SS

ON THIS 15th DAY OF January, 1965, BEFORE ME APPEARED

Harold A. Svoboda, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY

SWORN, DID SAY THAT HE IS THE Vice Pres OF SUNSET INTERNATIONAL PETROLEUM CORPORATION, A CORPORATION, AND THAT THE SEAL AFFIXED

TO THE SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRUMENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD OF DIRECTORS, AND SAID he ACKNOWLEDGED SAID INSTRUMENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

1965 GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 15th DAY OF January 1964.

MY COMMISSION EXPIRES:

Florence Marx

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE
FLORENCE MARX
My Commission Expires July 28, 1965

STATE OF _____ }
COUNTY OF _____ }

SS

STATE OF New Mexico }
COUNTY OF Eddy }

SS

CORPORATION ACKNOWLEDGEMENT

ON THIS 14th DAY OF January, 1965, BEFORE ME APPEARED

Marshall Rawley, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY
SWORN, DID SAY THAT HE IS THE Executive Vice President OF
Casper Drilling Company, Inc., A CORPORATION, AND THAT THE SEAL AFFIXED
TO SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRU-
MENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD
OF DIRECTORS, AND SAID Marshall Rawley ACKNOWLEDGED SAID INSTRU-
MENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 14th DAY OF January, 1965.

MY COMMISSION EXPIRES: 10-15-67

Chris Chapin

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____ }
COUNTY OF _____ }

SS

STATE OF Oklahoma }
COUNTY OF Washington }

SS

CORPORATION ACKNOWLEDGEMENT

ON THIS 11th DAY OF January, 1965, BEFORE ME APPEARED

H. D. BROOKBY, TO ME PERSONALLY KNOWN, WHO BEING BY ME DULY
SWORN, DID SAY THAT HE IS THE VICE PRESIDENT OF
Phillips Petroleum Company, A CORPORATION, AND THAT THE SEAL AFFIXED
TO SAID INSTRUMENT IS THE CORPORATE SEAL OF SAID CORPORATION, AND THAT SAID INSTRU-
MENT WAS SIGNED AND SEALED IN BEHALF OF SAID CORPORATION BY AUTHORITY OF ITS BOARD
OF DIRECTORS, AND SAID VICE PRESIDENT ACKNOWLEDGED SAID INSTRU-
MENT TO BE THE FREE ACT AND DEED OF SAID CORPORATION.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 11th DAY OF January, 1965.

MY COMMISSION EXPIRES:

Russell J. McLellan

NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF _____ }
COUNTY OF _____ }

SS

Russell J. McLellan
My Comm. Expires 11-1-66

INDIVIDUAL ACKNOWLEDGEMENT

2000

2000

2000

2000

2000

2000

THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME THIS 14th DAY
OF January, ~~1964~~ 1965, BY Chas. P. Miller
MY COMMISSION EXPIRES: Oct. 24, 1965
[Signature]
NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

JOINT ACKNOWLEDGEMENT
(HUSBAND AND WIFE)

THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME THIS 14th DAY
OF January, ~~1964~~ 1965, BY Chas. P. Miller AND Lia Miller
HIS WIFE.
MY COMMISSION EXPIRES: Oct. 24, 1965
[Signature]
NOTARY PUBLIC IN AND FOR SAID
COUNTY AND STATE

STATE OF New Mexico }
COUNTY OF La }

SS

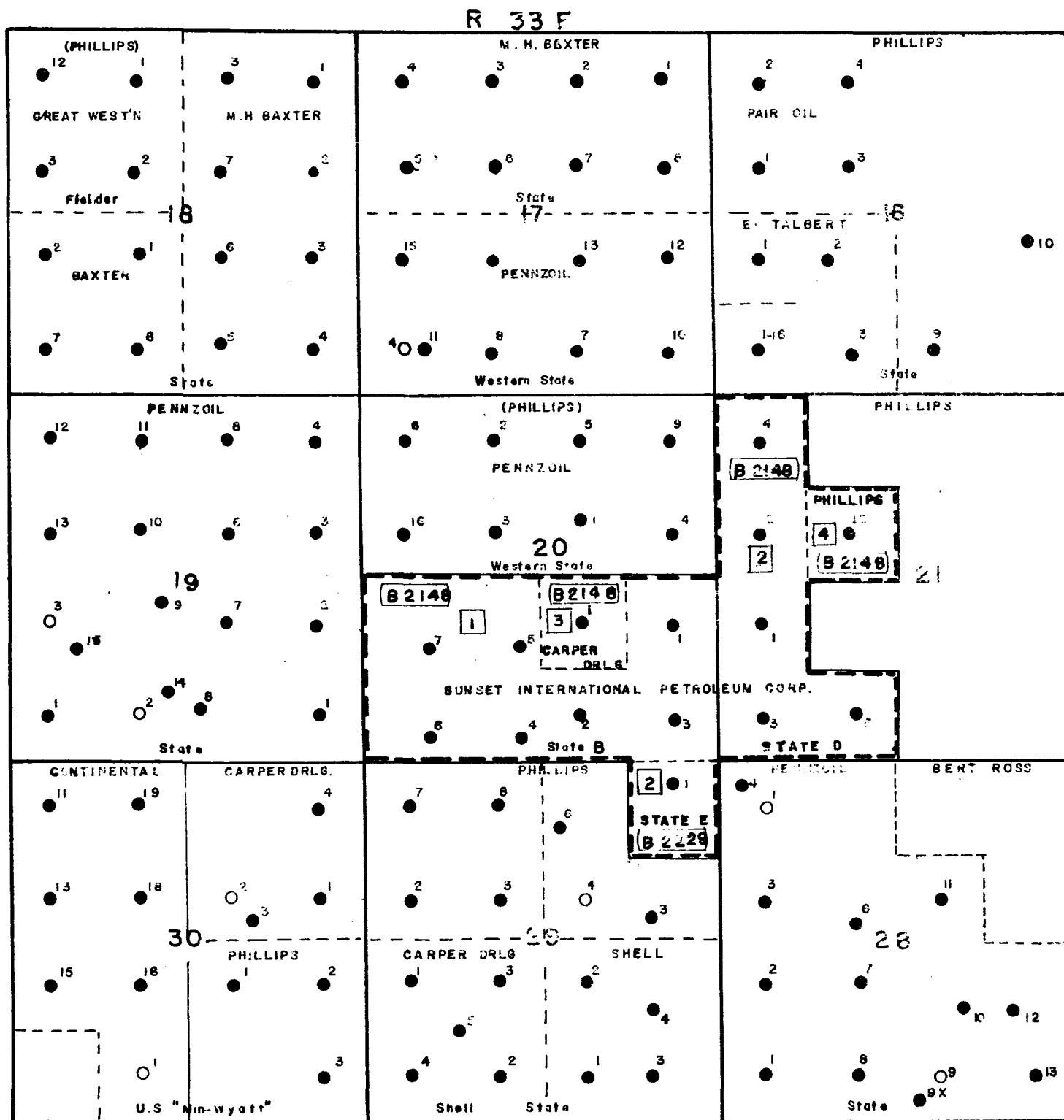


EXHIBIT A
MAL GRA UNIT
LEA COUNTY, NEW MEXICO
 --- MAL GRA UNIT BOUNDARY
 □ TRACT NUMBER
 ▭ NEW MEXICO LEASE NUMBER

EXHIBIT "C" TO UNIT AGREEMENT
MAL-GRA UNIT
MALJAMAR FIELD

LEA COUNTY, NEW MEXICO

TRACT No.	LEASE NAME	NUMBER WELLS	Gross RESERVES 1,1/64	ULTIMATE PRIMARY OIL	CURRENT PRODUCTION Last 6 Mos. 1963	TRACT PARTICIPATION IN UNIT 70% ULTIMATE - 30% CURRENT
1	STATE B	7	29,000 Bbls.	314,800 Bbls.	5,260 Bbls.	0.411888 0.152170
2	STATE D&E	6	15,400	157,000	3,040	0.205421 0.087946
3	PHILLIPS STATE	1	1,700	52,300	540	0.068429 0.15622
4	LEAMEX	1	4,480	10,900	1,530	0.014262 0.044262
	TOTAL	15	50,580	535,000	10,370	0.700000 0.300000



JIM BACA
COMMISSIONER

State of New Mexico

OFFICE OF THE

Commissioner of Public Lands

Santa Fe

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

#3108

January 29, 1992

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Brothers Production Company
P. O. Box 7515
Midland, Texas 79703

Attn: Mr. Kyle A. McGraw

Re: Designation of Successor Unit Operator, and Expansion of Mal-Graw Unit Agreement, Lea County, NM

Dear Mr. McGraw:

A review of our records reveals that on May 4, 1989, a Designation of Successor Unit Operator for the Mal-Graw Unit Agreement was submitted for our approval. Your letter advises that, inasmuch as Brothers Production Company now owns 100% of the Working Interest in the unit, you elect to be designated as the Successor Unit Operator. Pursuant to Section 6 of the unit agreement, the Commissioner of Public Lands has this date approved Brothers Production Company as the Successor Unit Operator of the Mal-Graw Unit effective May 4, 1989.

Upon further review of the Mal-Graw Unit, we are also in receipt of your letter of May 3, 1989, wherein you have advised this office that the original unitized interval of 4230' to 4380' "has been expanded to now include from surface to 4650'."

Please be advised that as per Section 2 of the unit agreement, you can not expand the unitized interval without our prior approval and an administrative order from the New Mexico Oil Conservation Division. Before you can expand the unitized interval you must submit the following:

1. Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for such expansion, the unit participation to be assigned to all tracts, and other pertinent data. If Working Interest Owners having Ninety Percent (90%) of the Working Interest in the unit area agree to such expansion, then Unit Operator shall, after preliminary concurrence by the Commissioner,

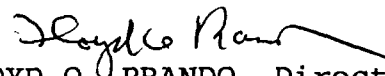
OCD ✓

2. Prepare a notice of proposed expansion describing the contemplated changes of the unit agreement, the reason therefor, the basis for expansion of the unitized interval, the unit participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the day of notice; and
3. Deliver copies of said notice to the Commissioner, each Working Interest Owner, and to the Lessee and Lessor whose interests are affected, advising such parties that Thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansions; and
4. File, upon the expiration of said Thirty (30) day period as set out in Item 3 immediately above, with the Commissioner the following: (A) Evidence of mailing copies of said notice of expansion; (B) An application for such expansion; (C) An instrument containing the appropriate ratifications; and (D) copy of any objections received.
5. Revised copies of Exhibits "A" and "B".
6. Amendment to the Mal-Gra Unit Agreement of Section 1 (J) and Section 3.
7. Pursuant to Section 9 of the unit agreement, an Amended Plan of Operations.
8. An application to commingle production and a Thirty (\$30.00) Dollar filing fee.
9. Administrative approval from the New Mexico Oil Conservation Division approving the commingling and expansion of the unitized formation.

If you have any questions, or if we can be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: 
FLOYD O. PRANDO, Director
Oil/Gas and Minerals Division
(505) 827-5744
JB/FOP/pm
encls.
cc: Reader File



State of New Mexico

OFFICE OF THE

Commissioner of Public Lands

Santa Fe

JIM BACA
COMMISSIONER

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

REGISTERED MAIL - RETURN RECEIPT REQUESTED

July 30, 1992 R 546 646 171

Brothers Production Company
P. O. Box 7515
Midland, Texas 79703

Attn: Mr. Kyle A. McGraw

Re: Expansion of Mal-Graw Unit Agreement
1992 Plan of Operation

Dear Mr. McGraw:

Reference is made to our letter of January 29, 1992, a copy of which has been enclosed. Our letter of the 29th requested that you submit all material relative the expansion of the Mal-Graw Unit agreement and an amended plan of operation. As of this date, we have not had a response from you.

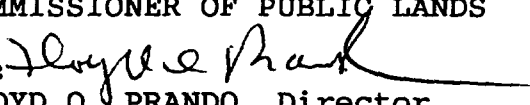
In addition, our records also indicate that a Multiple Surface Improvement Damage Bond has not been filed with this office. If you intend to continue operating the Mal-Gra Unit, you must file the enclosed \$20,000.00 Damage Bond with this office.

Pursuant to Section 25 of the Mal-Gra Unit Agreement, please be advised that you have 30 days from the date of this letter to submit the above requested information. If the above requested information is not timely received the Mal-Gra unit will be terminated.

If you have any questions, or if we can be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: 
FLOYD O. PRANDO, Director
Oil/Gas and Minerals Division
(505) 827-5744
JB/FOP/pm
encls.

cc: Reader File
OCD-Santa Fe

