

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
New Mexico	EXHIBIT NO. <u>2</u>
CASE NO. <u>2473</u>	

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
WEST LOCO HILLS GRAYBURG NO. 4 SAND UNIT AREA  
COUNTY OF EDDY  
STATE OF NEW MEXICO  
NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 1961, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature, Sec. 1, Chap. 88, Laws 1943, (Sec. 7-11-39 N.M. Statutes Annotated 1953 Compilation), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees of State

lands, with lessees of the United States, or with others, where such agreements provide for unit operation or development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by Sec. 3, Chap. 88, Laws 1943, as amended by an Act of the Legislature, Sec. 1, Chap. 162, Laws 1951, (Sec. 7-11-41 N.M. Statutes Annotated 1953 Compilation) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the provisions and the length of the secondary term of said lease as to lands within such unit area will conform and coincide with the provisions and the term of such agreement for the unit operation and development or part of all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature, Chap. 72, Laws 1935 as amended by Chap. 193, Laws 1937, by Chap. 166, Laws 1941 and by Chap. 168, Laws 1949 (Sec. 65-3-1 et seq., N. M. Statutes Annotated 1953 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the West Loco Hills Grayburg No. 4 Sand Unit covering the land hereinafter described to give reasonably effective control of operations herein; 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 other benefits obtainable through development and operation of the Grayburg No. 4 Sand under the terms, conditions and limitations herein set forth.

NOW, THEREFORE, in consideration of the premises and

the promises herein contained, the parties hereto commit to this Agreement their respective interests in the below defined Unit Area, and agree severally among themselves as follows:

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

2. UNIT AREA: The area specified on the map attached hereto, marked Exhibit "A", is hereby designated and recognized as constituting the West Loco Hills Grayburg No. 4 Sand Unit Area, hereinafter referred to as "Unit Area," containing 5320 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the Unit Area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage and kind of ownership of oil and gas interests in all land in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the Unit Area render such revision necessary,

or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner," and not less than seven copies of the revised exhibits shall be filed with the Supervisor and copies thereof shall be filed with the Commissioner and with the Oil Conservation Commission of the State of New Mexico, hereinafter referred to as "Commission."

The above described Unit Area shall, when practicable, be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area, whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, with concurrence of at least 65% of the voting interest or on demand of the Director of the Geological Survey, hereinafter referred to as "Director," after preliminary concurrence by the Director, or on demand of the Commissioner and Commission, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the Unit Area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

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

(c) Upon expiration of the 30-day period provided

in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, Commissioner and the Commission evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction and with appropriate joinders.

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

(e) All legal subdivisions of unitized lands (i.e. 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys, however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within 7 years after the first day of the month following the effective date of this agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the Unit Area and shall no longer be subject to this agreement, unless at the expiration of said 7-year period diligent drilling or reworking operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as drilling or reworking operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of drilling or reworking the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of

time during which drilling or reworking operations are prevented by a matter beyond the reasonable control of Unit Operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 10 years after said first day of the month following the effective date of this agreement shall be eliminated as above specified.

Determination of creditable "Unavoidable Delay" time shall be made by Unit Operator and subject to the approval of the Director and Commissioner. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director, Commissioner and the Commission and promptly notify all parties in interest.

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

Any expansion of the Unit Area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(3) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All oil

and gas in the hereinabove described land and subsequently admitted land effectively committed to this agreement only as to the Loco Hills Grayburg No. 4 Sand, together with the surface rights of ingress and egress, are unitized under the terms of this agreement and are herein referred to as "Unitized Substances," and said land, as to the Unitized Substances, shall constitute the land herein referred to as "Unitized Land" or "Land Subject to this Agreement." The parties hereto recognize the existence of that certain Agreement dated April 1, 1958, between the Loco Hills Pressure Maintenance Association, Inc., as "Association" The Individual Stockholders of the Loco Hills Pressure Maintenance Association, Inc., as "Operators," and Valley Gas Corporation, as "Valley." The unitization of gas in the Loco Hills Grayburg No. 4 Sand under this Unit Agreement is subject to all of the rights and privileges held by Valley Gas Corporation under said Agreement of April 1, 1958.

The Loco Hills Grayburg No. 4 Sand shall be construed to mean the sand and reservoir encountered in the drilling of the Newmont-Ballard Well No. B-6 between the depths of 2767 feet and 2792 feet, as shown on the Gamma Ray Neutron Log of said well, which well is located in the SE/4 SW/4 NE/4 of Section 1, Township 18 South, Range 29 East, Eddy County, New Mexico, and will herein be referred to as "Unitized Formation."

4. UNIT OPERATOR. Newmont Oil Company is hereby designated as Unit Operator and by signature hereto as Unit Operator for the development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the

owner of a working interest when such interest is owned by it.

The term "Working Interest Owner," as used herein shall mean the owner of such an interest committed hereto as may be obligated to pay or bear, either in cash or out of production, or otherwise, a portion of all costs and expenses of drilling, developing, producing and operating the Unitized Land under this agreement and the Unit Operating Agreement.

The term "Royalty Interest Owner," as used herein shall mean a party who owns a right to or interest in any portion of the Unitized Substances or proceeds thereof, other than a Working Interest Owner.

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 Director, Commissioner and the Commission, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The resignation of Unit Operator shall not release Unit Operator from any liability or default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator shall be subject to removal by at least two committed working interest owners owning at least seventy-five per cent (75%) of the voting interests, based on the percentage participations assigned to tracts in the participating area, exclusive of the working interest owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Director and 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 the duties of Unit Operator and shall, not later than 30 days before such resignation or removal becomes effective, appoint a common agent to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a working interest or other interests in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials and appurtenances used in conducting the unit operations as owner by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operation 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, by majority vote based on the percentage participations assigned to tracts in the participating area, select a successor Unit Operator; provided that if a majority but less than seventy-five per cent (75%) of the working interest owners qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new Operator and provided, further, no working interest owner who has just been removed as the Unit Operator may vote for self-succession.

Such selection shall not become effective until (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 Director and Commissioner.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. All costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the working interest owners in accordance with the agreement or agreements entered into by and between the Unit Operator and the working interest owners, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator, as provided in this section, whether one or more, are herein referred to as the "Unit Operating Agreement." Such Unit Operating Agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by the Unit Operator and the working interest owners; however, no such Unit Operating Agreement shall be deemed either to modify the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Three (3) true copies of any Unit Operating Agreement executed pursuant to this section shall be filed with the Supervisor and two (2) true copies 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 including surface rights, which are necessary or convenient for the prospecting for, producing, storing, allocating and distributing the unitized substances are hereby granted and 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 to any operating agreement or to any royalty or working interest, 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. DISCOVERY. Inasmuch as wells capable of producing unitized substances in paying quantities (to-wit: quantities sufficient to repay the cost of drilling and producing operations with a reasonable profit) from the Loco Hills Grayburg No. 4 Sand have already been drilled, tested and completed within the Unit Area and production in paying quantities is currently being taken therefrom, no initial test well is required under the terms of this Unit Agreement. The respective working interest owners as to the NW/4SE/4 of Section 7 and the NE/4 SW/4 of Section 12, both in Township 18 South, Range 29 East, agree to drill wells upon said tracts prior to the time said tracts can reasonably be expected to respond from any water injection and such working interest owners agree that said tracts shall not be entitled to participate until such time as said wells have been completed and are capable

of production.

10. PLAN OF OPERATION. It is recognized and agreed by the parties hereto that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect the greatest recovery of unitized substances, prevent waste and conserve natural resources. The Unit Operator is authorized to inject gas, oil, liquefied petroleum gas, brine, water or a combination of said substances and any one or more of said substances, irrespective of where said substances are produced, into the Grayburg No. 4 Sand through any well or wells now or hereafter completed therein; provided, however, that the above operations may be conducted by Unit Operator only in accordance with a plan of operation approved by the working interest owners, Supervisor, Commissioner and the Commission. Insofar as the parties hereto have the power and authority, they grant to the Unit Operator the use of brine or water or both from any formation within the Unit Area for injecting into the Grayburg No. 4 Sand.

On or before the effective date of this agreement, Unit Operator shall submit for the approval of the Supervisor, Commissioner and Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, Commissioner and the Commission, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor, Commissioner and Commission a plan or plans for an additional specified period for the development and operation of the unitized land. Said initial plan and all revisions thereof shall be as complete and

adequate as the Supervisor and Commissioner may determine to be necessary for timely operations and development consistent herewith. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development and operation. After the effective date hereof, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor, Commissioner and Commission, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION. The lands platted on Exhibit "A" and described in Exhibit B" hereto are recognized as reasonably proved to be productive of unitized substances in paying quantities and are hereby designated and fixed as the "initial participating area."

In said Exhibit B, attached hereto and made a part hereof, there is listed and numbered the various tracts within the initial participating area, and set opposite each tract is a figure which represents the percentage participation to which such tract shall be entitled if all of said tracts are committed hereto as of the effective date of this agreement. In the event less than all tracts within the initial participating area are committed hereto as of the effective date of this Agreement, Unit Operator, as soon as practicable after the effective date of this agreement shall file with the Supervisor, Commissioner and Commission a schedule of those tracts within the initial participating area committed hereto as of said effective date, which said schedule shall be designated "Revised Exhibit B" and considered for all purposes as a part

of this agreement. Such Revised Exhibit "C" shall set forth opposite each such committed tract within the initial participating area a revised percentage participation therefor, which shall be calculated by applying the proportion that the total of the committed tract percentage participation factors bear to each of the committed tract percentage participation factors as they are now set out in Exhibit "A", so that the revised percentage participations of the respective tracts will remain in the same ratio one to the other. Such Revised Exhibit "C" unless disapproved by the Director, Commissioner or Commission within 30 days after filing, shall supersede, effective as of the effective date hereof, the percentage participations set forth in Exhibit "B" attached hereto until a further revision or revisions thereof are filed with and approved by the Director, Commissioner and Commission as hereinafter provided. The percentage participation for each tract as shown on Exhibit "D" attached hereto was determined entirely by the total cumulative oil production of each tract and such percentage participation factors, or as may be shown on the Revised Exhibit "D", as above provided, shall govern the allocation of production on and after the effective date of this Unit Agreement until the participating area is revised and the revised percentage participations are filed with and approved by the Director, Commissioner and Commission as hereinafter provided.

Whenever it appears proper to revise the initial participating area to include land then regarded as reasonably proven to be productive of unitized substances in paying quantities or determined to be essential to unit operations, the Unit Operator and the working interest owner or owners of such tracts shall meet and seek to determine, on the basis of estimated recoverable reserves of unitized substances, the

tract percentage participation factor that should be assigned to such tract. If and when such parties agree upon the tract participation percentage factor that should be assigned to such tract the Operator shall submit the matter of revision of the participating area and the percentage participation factors to be assigned to each new tract proposed to be included in the revised participating area, to the working interest owners in the participating area prior to such enlargement. If 75% of the voting interests of such working interest owners approve the revision and tract participating factors then, subject to the approval of the Director, Commissioner and Commission, the participating area shall be revised and the participating percentage for each tract in the enlarged participating area shall be revised, provided, however, that in any such revision the revised percentage participation of the respective tracts which were participating prior to such revision shall remain in the same ratio one to another. Unit Operator shall, within eight (8) months from and after the official date of completion of a unit well occasioning a revision of the participating area, file with the Director, Commissioner and the Commission appropriate instruments outlining and establishing the revised participating area occasioned by such well. The effective date of any enlargement or contraction of the participating area shall be determined by the Unit Operator, subject to the approval of the Director, Commissioner and Commission, in advance of the vote by the working interest owners to consider a revision of the participating area. No land shall be excluded from a participating area on account of depletion of the unitized substances. It is the intent of this section that the participating area shall be comprised of adjoining parcels of land consisting of one or

more Government survey quarter-quarter sections, or lot equivalents in instances of irregular surveys, on each of which parcels there is a well capable of producing unitized substances in paying quantities or which, in the absence of such well thereon, are nevertheless determined to be essential for unit operations; but regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

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

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



well shall be made as provided in the Unit Operating Agreement.

If, subsequent to the effective date of this agreement, any additional tract within the initial participating area becomes committed hereto under the provisions of Section 28 hereof, or any committed tract within the initial participating area is excluded herefrom under the provisions of Section 27, Unit Operator shall revise Exhibit "~~B~~" to show the new percentage participations of the committed tracts in the initial participating area, which revised Exhibit shall, upon its filing and approval by the Director, Commissioner and Commission, supersede as of its effective date, the last previously effective Exhibit "~~B~~". In any such revision of Exhibit "~~B~~" the revised percentage participations of the respective tracts which were committed hereto prior to such revision shall remain in the same ratio one to another.

12. ALLOCATION OF PRODUCTION. For the purpose of determining any and all benefits accruing under this Agreement each tract committed hereto within the participating area shall have allocated to it a proportion, equal to its percentage participation of all unitized substances produced from the unitized land except any part thereof used in conformity with good operating practices within the participating area for drilling, operating, camp and other production or development purposes for pressure maintenance or secondary recovery operations in accordance with a plan of operation approved by the Supervisor, Commissioner and Commission, or unavoidably lost. The amount of unitized substances allocated to each tract in the participating area shall be deemed to be produced from such tract. It is hereby agreed that production of unitized substances from any part of the participating area shall be allocated as provided herein regardless of whether oil or gas is being produced from any particular tract

committed hereto. If the working interests or the royalty interests in any committed tract are divided with respect to separate parcels or portions of such tract and owned severally by different persons, the percentage participation assigned to such tract shall, in the absence of a recordable instrument among all owners fixing the division of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND. Any party or parties hereto owning or controlling the working interest or a majority of the working interest in any unitized land having thereon a regular well location may, with the approval of the Supervisor as to Federal land and the Commissioner as to State land, and subject to the provisions of the Unit Operating Agreement, at such party's sole risk, cost and expense, drill or work over a well to test the Grayburg No. 4 Sand formation if such location is not within a participating area.

If any well drilled or worked over, as aforesaid, by a working interest owner results in production of unitized substances such that the land upon which it is situated may properly be included in a participating area, such participating area shall be enlarged as provided in this Agreement, and the well shall thereafter be operated by Unit Operator in accordance with the terms of this Agreement and the Unit Operating Agreement.

If any well drilled or worked over, as aforesaid, by a working interest owner obtains production of unitized substances in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling or working over the same subject to the conservation

requirements of this Agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The United States and the State of New Mexico and all royalty owners who, under existing *Contract are entitled to take in kind a share of the unitized* substances produced from any tract, shall hereafter be entitled 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 interests not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases except that said royalties shall be computed in accordance with the terms of this agreement.

If gas obtained from lands 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 Supervisor, Commissioner and Commission, a like amount of gas, less appropriate deductions for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor and the Commissioner; and, provided further, that such right of withdrawal shall terminate on the termination of this agreement. If

liquified 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 Supervisor and Commissioner, part of 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 Supervisor and Commissioner.

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

Royalty due on account of State lands shall be computed and paid on the basis of all unitized substances allocated to such lands, in lieu of actual production from such lands.

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working interest owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective

leases from the United States unless such rental or minimum royalty is waived, suspended or reduced by law or by approval of the Secretary of the Interior or his duly authorized representative.

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rate specified in the respective leases, or may be reduced or suspended under the order of the Commissioner pursuant to applicable laws and regulations.

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

17. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement or, pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Supervisor for Federal land and by the Commissioner for State land.

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

minimum royalty and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

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

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

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

(d) Each lease, sublease or contract relating

to the exploration, drilling, development or operation for oil or gas of lands other than those of the United States committed to this agreement, which by its term 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) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto.

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

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Section 17 (b) of the Act, as amended by the Act of July 29, 1954, (68 Stat. 583, 585): "Any Federal lease

hereafter committed to any such unit plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

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

(i) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to the portion committed and as to the portion not committed, and the terms of such lease shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease (whether within or without the Unit Area),  
(i) if, and for so long as Unitized Substances are capable of being produced in paying quantities from some part of the lands embraced in such lease com-



mitted to this agreement, or (ii) if, and for so long as some part of the lands embraced in such State lease are included in the Participating Area; or (iii) if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein and for so long as such operations are being diligently prosecuted, and if they result in the production of United Substances, said lease shall continue in full force and effect as to all of the lands embraced therein, as provided in (i) or (ii) above.

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

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Director and Commissioner, or their duly authorized representatives, as of the first day

of the month following the date of approval by the Director and the Commissioner and shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities, i.e. in this particular instance, in quantities sufficient to pay for the cost of producing same, and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production and so long thereafter as such unitized substances can be produced as aforesaid. This agreement shall remain in effect during any period of suspension approved by the Director and the Commissioner as provided for in Section 18 (c) hereof.

This Agreement may be terminated at any time by the working interest owners whose voting interests aggregate not less than ninety percent (90%), subject to the approval of the Director and the Commissioner; notice of any such approval shall 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.

If not otherwise covered by the leases unitized under this Agreement, royalty owners hereby grant working interest owners a period of six (6) 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.

21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION.

The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this Agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform

to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State Law. It is agreed, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice.

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Department of the Interior and the Commission and to appeal from orders issued under the regulations of said department and/or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, the Commission or other legally constituted

authority; provided, however, that any other interested party shall also have the right, at his own expense, to be heard in any such proceeding.

23. 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 or certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State of New Mexico 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.

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

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

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

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this Unit Agreement, 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 the title to any royalty, working interest or any other interest subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided that as to Federal land or leases and State land or leases, no payments of funds due the United States or the State of New Mexico should be withheld, but such funds to the United States shall be deposited as directed by the Supervisor, and such funds of the State of New Mexico shall be deposited as directed by the Commissioner, to be held as unearned money pending final settlement

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest is a tract within the Unit Area fails or refuses to subscribe or consent to this Agreement, the owner of the working interest in that tract may withdraw said tract from this Agreement by written notice to the Director, the Commissioner and the Unit Operator prior to the approval of this Agreement by the Director. Any such tract effectively committed as to the working interest and not so withdrawn shall be considered unitized, and any necessary adjustments of royalty occasioned by failure of the royalty and record owner to join will be for the account of the corresponding working interest owner. Any oil or gas interest in lands within the Unit Area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this Agreement and, if the interest is a working interest, by the owner of such interest also subscribing to the Unit Operating Agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the Unit Operating Agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. Joinder to the Unit Agreement by a working interest

owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement if more than one committed working interest owner is involved, in order for the interest to be regarded as effectively committed to this Unit Agreement. Except as may otherwise herein be provided, subsequent joinders to this Agreement shall be effective as of the first day of the month following the filing with the Supervisor and the Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this Agreement unless objection to such joinder is duly made within sixty (60) days by the Director or the Commissioner.

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

30. TAXES. The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered and sold from the land subject to this contract after the effective date of this Agreement, or upon the proceeds or net proceeds derived therefrom. The working interest owners of each tract shall and may charge the proper proportion of said taxes to the royalty owners having interest in said tract, and may currently retain and deduct sufficient of the unitized

substances or derivative products, or net proceeds thereof from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

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

32. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, express or implied, or any operations conducted hereunder, shall create or be deemed to have created a partnership or association



between the parties hereto or any of them.

33. BORDER AGREEMENTS. Subject to the approval of the Director and the Commissioner, the Unit Operator, with concurrence of sixty-five per cent (65%) of the working interest owners may enter into a border-protection agreement or agreements with the working interest owners of adjacent lands along the exterior boundary of the Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written and have set opposite their respective names the date of execution and the address of each of the respective executing parties.

UNIT OPERATOR AND WORKING INTEREST OWNER  
NEWMONT OIL COMPANY

By \_\_\_\_\_  
President

ATTEST:

\_\_\_\_\_  
Secretary

Date of Signature: \_\_\_\_\_

# BEFORE EXAMINER NUTTER

## EXHIBIT B

West Loco Hills Unit  
Eddy County, New Mexico

OIL CONSERVATION COMMISSION  
EXHIBIT NO. 2-B  
CASE NO. 2472-2473

Working Interest Owner	Tract No.	Description	Acreage	Production to 12-1-60	Participation in Unit	Per Cent Participation
Participating Acreage - 4,480 Acres						
Bassett and Birney	1	E/2 SW/4 Section 2-18S-29E	80	218,385	2.4064	5.8357 1.4402 1.5731
	2	NE/4 SW/4 Section 10-18S-29E	40	118,446	1.3052	
	3	W/2 NW/4 Section 2-18S-29E	80	108,569	1.1964	
	4	N/2 SE/4 Section 11-18S-29E	80	84,184	0.9277	
	5	NW/4 SW/4 Section 1-18S-29E	40	130,700	1.4402	
	6	N/2 NW/4 Section 12-18S-29E	80	142,760	1.5731	
	7	N/2 SE/4 Section 9-18S-29E	120	265,287	2.9233	
	8	E/2 NW/4 Section 1-18S-29E	80	225,468	2.4845	
	9	S/2 SE/4 Section 1-18S-29E	80	261,976	2.8868	
	10	NE/4 & S/2 NW/4 Section 12-18S-29E	240	459,571	5.0642	
Dixon-Yates	11	NE/4 SW/4 Section 12-18S-29E	40	65,550 *	0.7223	2.9233
	12	SE/4 Section 12-18S-29E	160	369,046	4.0666	
	13	N/2 NE/4 Section 13-18S-29E	80	38,542	0.4247	
	14	SE/4 Section 2-18S-29E	160	353,495	3.8953	
	15	NW/4 SW/4 Section 2-18S-29E	40	113,013	1.2453	
	16	SE/4 SW/4 Section 10-18S-29E	40	91,549	1.0088	
	17	SW/4 SW/4 Section 36-17S-29E	40	78,781	0.8681	
	18	SE/4 SW/4 Section 36-17S-29E	40	122,470	1.3495	
	19	NE/4 SW/4 Section 1-18S-29E	40	123,924	1.3656	
	20	N/2 NE/4 Section 11-18S-29E	80	157,604	1.7367	
Donnell Drilling Co.	21	NE/4 NW/4 Section 2-18S-29E	40	13,014	0.1434	6.1494
	22	SE/4 NW/4 Section 2-18S-29E	40	112,292	1.2374	
	23	SW/4 SW/4 Section 2-18S-29E	40	46,553	0.5130	
	24	E/2 Section 10-18S-29E	320	526,898	5.8061	
	25	E/2 SE/4 Section 4-18S-29E	80	148,533	1.6367	
	26	E/2 NW/4 Section 10-18S-29E	80	179,454	1.9775	
	27	SW/4 NW/4 and NW/4 SW/4 Section 10-18S-29E	80	175,131	1.9298	
	28	N/2 NW/4 Section 15-18S-29E	80	101,219	1.1154	
	29	NW/4 NE/4 Section 15-18S-29E	40	22,901	0.2523	
Fair						14.6565
						5.2750
Graridge						

<u>Working Interest Owner</u>	<u>Tract No.</u>	<u>Description</u>	<u>Acreage</u>	<u>Cumulative Production to 12-1-60</u>	<u>Tract Per Cent Participation in Unit</u>	<u>Total Unit Per Cent Participation</u>
Loco Hills Pressure Maintenance	30	SW/4 SW/4 Section 10-18S-29E	40	53,522	0.5898	0.5898
J. Cleo Thompson	31	NW/4 NW/4 Section 10-18S-29E	40	87,058	0.9593	
	32	NE/4 Section 9-18S-29E	160	295,784	3.2594	
	33	SW/4 SE/4 Section 9-18S-29E	40	88,496	0.9752	
Van S. Welch	34	NE/4 NE/4 Section 15-18S-29E	40	6,246	0.0688	5.2627
Yates Brothers	35	SE/4 SW/4 Section 1-18S-29E	40	146,480	1.6141	1.6141
	36	W/2 NW/4 Section 1-18S-29E	80	222,503	2.4518	
	37	NE/4 Section 2-18S-29E	160	376,710	4.1511	
	38	NW/4 and NW/4 SW/4 Section 11-18S-29E	200	351,410	3.8723	10.4752
Martin Yates	39	SW/4 SW/4 Section 1-18S-29E	40	130,682	1.4400	1.4400
S. P. Yates	40	S/2 NE/4, NE/4 NE/4 & N/2 SE/4 Section 3-18S-29E	200	288,186	3.1756	
	41	SW/4 and S/2 NW/4 Section 3-18S-29E	240	444,766	4.9010	
	42	S/2 SE/4 Section 3-18S-29E	80	124,305	1.3698	9.4464
Newmont	43	S/2 NE/4 Section 11-18S-29E	80	220,574	2.4306	
	44	W/2 Section 7-18S-30E				
		Except SE/4 SW/4	280	850,440	9.3713	
	45	SE/4 SW/4 Section 7-18S-30E	40	110,358	1.2161	
	46	N/2 NW/4 and SE/4 NW/4 Section 18-18S-30E	120	159,966	1.7627	
	47	S/2 SE/4 and NW/4 SE/4 Section 7-18S-30E	120	200,345 **	2.2077	
	48	NW/4 NE/4 Section 18-18S-30E	40	61,815	0.6811	
<u>Non-Participating Acreage - 840 Acres</u>			<u>4,480</u>	<u>9,074,961</u>	<u>100.0000</u>	<u>17.6695</u>
Dixon-Yates	49	NW/4 SW/4 Section 12-18S-29E	40			
	50	SW/4 SW/4 Section 12-18S-29E	40			
	51	SE/4 SW/4 Section 12-18S-29E	40			
	52	SW/4 NE/4 Section 13-18S-29E	40			
	53	SE/4 NE/4 Section 13-18S-29E	40			
Graridge	54	SW/4 NW/4 Section 15-18S-29E	40			
	55	SE/4 NW/4 Section 15-18S-29E	40			
	56	SW/4 NE/4 Section 15-18S-29E	40			

<u>Working Interest Owner</u>	<u>Tract No.</u>	<u>Description</u>	<u>Acreage</u>	<u>Cumulative Production to 12-1-60</u>	<u>Tract Per Cent Participation in Unit</u>	<u>Total Unit Per Cent Participation</u>
Yates Brothers	57	NE/4 SW/4 Section 11-18S-29E	40			
	58	SW/4 SW/4 Section 11-18S-29E	40			
	59	SE/4 SW/4 Section 11-18S-29E	40			
	60	NW/4 NW/4 Section 3-18S-29E	40			
S. P. Yates	61	NE/4 NW/4 Section 3-18S-29E	40			
	62	NW/4 NE/4 Section 3-18S-29E	40			
	63	SW/4 SE/4 Section 11-18S-29E	40			
	64	SE/4 SE/4 Section 11-18S-29E	40			
Newmont	65	SW/4 NW/4 Section 12-18S-30E	40			
	66	NE/4 SW/4 Section 18-18S-30E	40			
	67	SW/4 NE/4 Section 18-18S-30E	40			
	68	NW/4 SE/4 Section 18-18S-30E	40			
	69	NE/4 SE/4 Section 18-18S-30E	40			
			840			

\* Includes estimated 65,550 barrels for undrilled location NE SW Section 12-18S-29E. —  
 \*\* Includes estimated 52,095 barrels for undrilled location NW SE Section 7-18S-30E. —

R - 29C

R - 30E

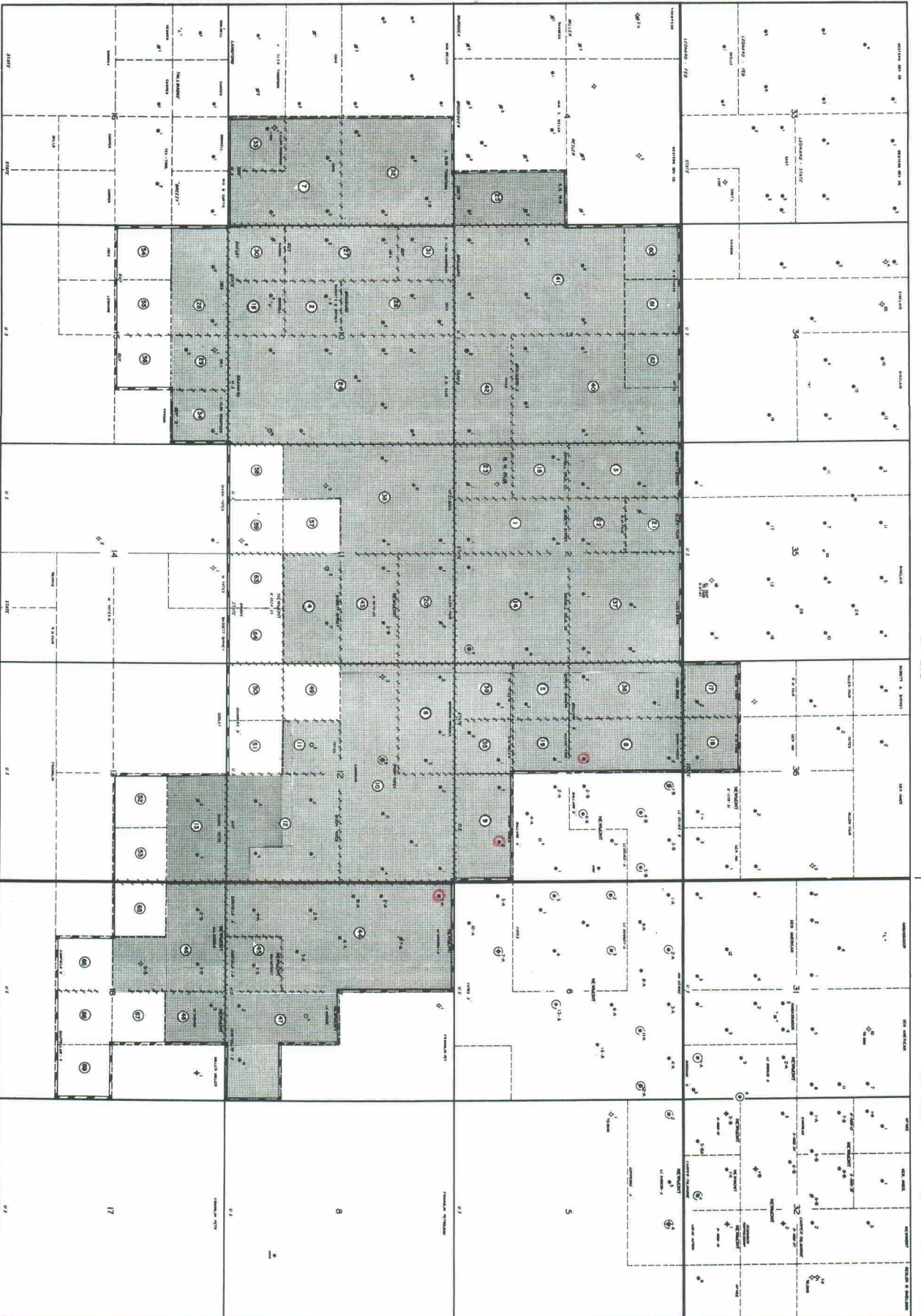


EXHIBIT "B"  
ATTACHED TO UNIT AGREEMENT  
WEST LOCO HILLS UNIT  
EDDY COUNTY, NEW MEXICO

LOCO HILLS  
NEWPORT OIL COMPANY  
EDDY COUNTY, NEW MEXICO

LEGEND  
UNIT BOUNDARY  
TRACT BOUNDARY  
TRACT NUMBER  
PARTICIPATING AREA

Legend  
UNIT BOUNDARY  
TRACT BOUNDARY  
TRACT NUMBER  
PARTICIPATING AREA

T  
18  
S

EXHIBIT 1