

UNIT OPERATING AGREEMENT
 LANGLEY-MATTIX PENROSE SAND UNIT
 LEA COUNTY, NEW MEXICO

BEFORE EXAMINER UTZ

CONSERVATION COMMISSION

EXHIBIT NO. C

CASE NO. 2954

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UNIT OPERATING AGREEMENT
LANGLIE-MATTIX PENROSE SAND UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of April, 1963, by and between the parties who execute or ratify this Agreement;

W I T N E S S E T H :

THAT, WHEREAS, the parties hereto as Working Interest Owners have executed as of the date hereof, that certain Unit Agreement For the Development and Operation of the Langlie-Mattix Penrose Sand Unit, Lea County, New Mexico, hereinafter referred to as "Unit Agreement", and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners pertaining to the development and operation of the Unit Area 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 incorporated herein by reference and made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. In the event of any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall prevail.

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein by reference:

- 2.1.1 Exhibits A and B of the Unit Agreement.
- 2.1.2 Exhibit C, attached hereto, is a schedule showing the total Unit Participation of each Working Interest Owner.
- 2.1.3 Exhibit D, attached hereto, is the Accounting Procedure applicable to development and operation of the Unit Area. In the event of conflict between this Agreement and Exhibit D, this Agreement shall prevail.
- 2.1.4 Exhibit E, attached hereto, contains insurance provisions applicable to the development and operation of the Unit Area.

2.2 Revision of Exhibits. Whenever Exhibits "A" and "B" are revised, Exhibit "C" shall be revised according to such revision to be effective as of the effective date of revised Exhibits "A" and "B".

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to the development and operation of the Unit Area pursuant to this Agreement and the Unit Agreement. In the exercise of such power 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 Particular Powers and Duties. The matters to be passed upon and decided by Working Interest Owners shall include, but not be limited to, the following:

3.2.1 Method of Operation. The kind, character and method of including any type of pressure maintenance or secondary recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well within the Unit Area either for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Workovers and Change of Status. The recompletion, abandonment, or change of status of any well in the Unit Area or use of any such well for injection or other purposes.

3.2.4 Expenditures. Making of any single expenditure in excess of Ten Thousand No/100 Dollars (\$10,000.00); provided that approval by Working Interest Owners of the drilling, reworking, drilling deeper, 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 Surplus Facilities. Selling or otherwise disposing of any major item of surplus material or equipment, the current list price of new equipment similar thereto being One Thousand Five Hundred and No/100 Dollars (\$1,500.00) or more.

3.2.6 Appearance Before a Court or Regulatory Body. The designation of a representative to appear before any court or regulatory body in all matters pertaining to Unit operations; provided, however, such designation by Working Interest Owners shall not prevent any

Working Interest Owner from appearing in person or from designating another representative in its own behalf and at its own expense.

3.2.7 Audits. The making of proper audits of the accounts of Unit Operator pertaining to operations hereunder; provided that such audits shall:

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator; and shall:
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator; and,
- (c) be upon not less than thirty (30) days' written notice to Unit Operator;

provided, however, any Working Interest Owner shall have the right to audit the accounts of Unit Operator at any time by giving not less than thirty (30) days' notice to Unit Operator and paying for the expense of such audit.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit "D".

3.2.9 Technical Services. Any direct 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 Appointment of Committees. The appointment or designation of committees or subcommittees necessary for the study of any problem in connection with Unit operations.

3.2.11 The removal of Unit Operator and the selection of a successor, in accordance with Article 6.2 hereof.

3.2.12 The enlargement of the Unit Area.

3.2.13 The readjustment of investments as required.

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 advise Unit Operator in writing the names and addresses of its representative and

alternate representative authorized to represent and bind it in respect to any matter pertaining to the development and operation of the Unit Area. Such representative or alternate representative may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit Area shall be called by Unit Operator upon its own motion or at the request of two (2) or more Working Interest Owners, having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. In the absence of protest by any qualified member of the meeting, the Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding on such amended items or from deciding other items presented at such meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall act upon and determine all matters coming before them as follows:

4.3.1 Voting Interest. In voting on any matter each Working Interest Owner shall have a voting interest equal to its then percentage in Unit Participation, as shown in Exhibit "C", and such revisions thereof as may be hereafter made in accordance with the terms of this Agreement.

4.3.2 Vote Required. Except as may otherwise be provided herein or in the Unit Agreement, Working Interest Owners shall act upon and determine all matters coming before them including but not limited to:

(a) an expenditure of more than Ten Thousand and No/100 Dollars

(\$10,000.00); or,

(b) drilling of any wells and method of reconditioning for injection and/or producing wells;

by the affirmative vote of seventy-five percent (75%) or more of the voting interest; provided, that should any one Working Interest Owner own more than twenty-five percent (25%) voting interest, its negative vote or failure to vote shall not serve to defeat such matter unless supported by the vote of one or more Working Interest Owner having a combined voting interest of at least five percent (5%).

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any

Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter or telegram addressed to the chairman of the meeting, provided such vote is received prior to the submission of such item to vote. 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 decide any matter by vote taken by letter or telegram, provided the matter is first submitted in writing to each Working Interest Owner and no meeting on the matter is called as provided in Article 4.2, within seven (7) days after such proposal is served on Working Interest Owners. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, power, authority and privileges, except as provided expressly in this Agreement and the Unit Agreement.

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

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

5.2.2 Reports by Request. 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 data not ordinarily furnished by Unit Operator to all Working Interest Owners; the cost of preparing copies of said reports shall be charged solely to the Working Interest Owners requesting the same.

ARTICLE 6

UNIT OPERATOR

6.1 Initial Unit Operator. Ambassador Oil Corporation, a Delaware corporation, is hereby designated as Unit Operator.

6.2 Resignation or Removal -- Selection of Successor. The resignation

or removal of Unit Operator, and the selection of a successor shall be governed by the provisions of the Unit Agreement.

ARTICLE 7

POWERS AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this Agreement and to the orders, directions and limitations rightfully given or imposed by Working Interest Owners, Unit Operator shall have the exclusive right and duty to develop and operate the Unit Area for the production of Unitized Substances.

7.2 Workmanlike Conduct. Unit Operator shall conduct all operations hereunder in a good and workmanlike manner, and, in the absence of specific instructions from Working Interest Owners, shall have the right and duty to conduct such operations in the same manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them advised of all matters arising in connection with such operations which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable for damages unless such damages result from the gross negligence or willful misconduct of Unit Operator.

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 its operations hereunder, except the lien of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting operations hereunder, the selection of such employees, the hours of labor, and the compensation for services to be paid any and all such employees shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep true and correct books, accounts and records of its operations hereunder.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner monthly, injection and production reports for each well in the Unit, as well as periodic reports of the development and operation of the Unit Area.

7.7 Reports to Governmental Authorities. Unit Operator shall make all necessary reports to governmental authorities.

7.8 Engineering and Geological Information. Unit Operator shall furnish to each Working Interest Owner, upon written request, a copy of the log of, and copies of engineering and geological data pertaining to, wells drilled by Unit Operator.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Ten Thousand and No/100 Dollars (\$10,000.00) without prior approval of Working Interest Owners; provided, however, that nothing in this Article (nor in Article 3.2.4) shall be deemed to prevent Unit Operator from making an expenditure in excess of said amount if such expenditure becomes necessary because of a sudden emergency which may otherwise cause loss of life or extensive damage to property. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Settlements. Unit Operator may settle any single damage claim not involving an expenditure in excess of One Thousand Five Hundred and No/100 Dollars (\$1,500.00), provided such payment is a complete settlement of such claim. All claims in excess of \$1,500.00 must be approved by the Working Interest Owners.

7.11 Nondiscrimination. In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 301 (1) to (7) inclusive, of Executive Order 10925 (26 F.R. 1977), which are hereby incorporated by reference in this agreement.

7.12 Mathematical Errors. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the pertinent exhibits to this Agreement upon approval of the Commissioner, the Supervisor and Working Interest Owners.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Unit Operator, after consulting with Working Interest Owners, shall, beginning with the first calendar year after the effective date of the Unit, make and file for ad valorem tax purposes all necessary renditions and returns with the proper taxing authorities or governmental subdivisions covering all real and personal property of each Working Interest Owner within the Unit Area and used in connection with the development and operation of the Unit Area. Any Working Interest Owner dissatisfied with any proposed rendition or assessment of its interest in real or personal property shall have the right, at its own expense, to protest and resist the same. All such ad

valorem taxes due and payable on account of real and personal property of each Working Interest Owner located within the Unit Area and used in connection with Unit operations shall be paid by Unit Operator for the joint account in the same manner as other costs and expenses of Unit operations.

8.2 Direct Taxes and Assessments. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering and other direct taxes and assessments imposed upon or on account of the production or handling of its share of Unitized Substances.

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator shall carry, with respect to Unit operations subject to this Agreement:

9.1.1 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 possession of:

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, rods and subsurface pumps in each such well, together with the wellhead connections thereon, and all other lease and operating equipment used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit operations, and,

10.1.3 Records. A copy of all production and well records pertaining to such wells.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall (at Unit expense) inventory and evaluate (i) all controllable material in accordance with provisions of Exhibit "D" and (ii) all personal property so taken over under Article 10.1.2 above, and Working Interest Owners shall appoint a committee for such purpose. Such inventory and evaluation shall be limited to items considered controllable, as recommended in the Material Classification Manual published by the Petroleum Accountants Society of Oklahoma in 1960, except that subsurface pumps and sucker rods will also be included and valued in the inventory adjustment hereinafter provided for.

Casing is donated and will not be valued. In this connection, Working Interest Owners agree to furnish such committee a list of their underground equipment prior to the effective date of this Agreement. The inventory as taken by the committee shall be as of the effective date of the Unit Agreement.

10.3 Investment Adjustment. Upon approval of such inventory and evaluation by Working Interest Owners owning seventy-five percent (75%) or more voting interest in the Unit, each Working Interest Owner shall be credited with the value of its interest in all personal property so taken over by Unit Operator under Article 10.1.2 (including subsurface pumps and sucker rods) and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Article 10.1.2 by such Working Interest Owner's Unit Participation as shown on Exhibit "C". 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 paid and in all other respects be treated as any other 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. Pricing of inventory will be in accordance with Article III of Exhibit "D" hereof.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for operations hereunder shall be by negotiation by and between 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 in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement in an amount equal to its Unit Participation shown on Exhibit "C".

ARTICLE 11

DEVELOPMENT AND OPERATING COSTS

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development and operation of the Unit Area. Working Interest Owners shall reimburse Unit Operator for all such costs and expenses, in proportion to their respective Unit

Participation, shown on Exhibit "C". All charges, credits and accounting for costs and expenses 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 costs and expenses for the remainder of the calendar year, and on or before the first day of each October thereafter shall prepare a budget of estimated costs and expenses for the ensuing calendar year. Such budgets shall set forth the estimated costs and expenses by quarterly periods. Budgets so prepared shall be estimates only and shall be subject to adjustment and correction by Working Interest Owners and Unit Operator from time to time whenever it shall appear that an adjustment or correction is proper. A copy of each such budget and adjusted budget shall be promptly furnished each Working Interest Owner.

11.3 Advance Billing. Unit Operator shall have the right at its option to require Working Interest Owners to advance their respective proportion of such costs and expenses by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within thirty (30) days thereafter, each Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly. Where such estimates include materials to be acquired, Working Interest Owners may have the option of furnishing such material in kind, subject to acceptance of such material by Unit Operator.

11.4 Commingling of Funds. No funds received by Unit Operator under this Agreement need be segregated by Unit Operator or maintained by it as a joint 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 such Working Interest Owner's (i) leasehold and other mineral interests in each tract, (ii) its interest in all jointly-owned materials, equipment and other property, and (iii) its interest in all Unitized Substances, as security for payment of the costs and expenses chargeable to it, together with interest thereon at the rate of eight percent (8%) per annum. Unit Operator shall have the right to bring any action at law or in equity to

enforce collection of such costs and expenses, with or without foreclosure of such lien. In addition, upon default by any Working Interest Owner in the payment of costs and expenses chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers all proceeds of such Working Interest Owner, plus interest, as aforesaid, until paid. Each such purchaser shall be entitled to rely upon Unit Operator's written statement concerning the existence and amount of any such default.

11.6 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be drilled on a competitive basis at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment in the drilling of wells, but in such event, the charge therefor shall not exceed the prevailing rate in the area, and such work shall be performed by Unit Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors doing work of a similar nature.

11.7 Burden of Unsigned One-eighth (1/8) Royalty Interest. 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 the Working Interest Owner that has the Working Interest that is subject to such royalty.

11.8 Burden of Excess Royalty and Other Interests. If any interest contributed by a Working Interest Owner is burdened with a Royalty in excess of one-eighth (1/8), such excess burden shall be borne solely by the Working Interest Owner contributing such interest.

11.9 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. Rental or minimum royalty for lands of the United States of America subject to this agreement shall be paid at the rate specified in the

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

ARTICLE 12

OPERATION OF NON-UNITIZED FORMATIONS

12.1 Right to Operate in Non-Unitized Formations. Any Working Interest owner now having, or hereafter acquiring, the right to drill for and produce oil, gas or other minerals, other than Unitized Substances, within the Unit Area shall have the full right to do so notwithstanding this Agreement. In exercising said right, however, such Working Interest Owner shall exercise every reasonable precaution to prevent unreasonable interference with operations hereunder. No Working Interest Owner, other than Unit Operator, shall produce Unitized Substances through any well drilled or operated by it. If any such other Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be cased or otherwise protected in such a manner that the Unitized Formation and the production of Unitized Substances will not be adversely affected. Dual completions in the Unitized Formation and some other formation shall be permitted only on approval of Working Interest Owners, upon such terms and conditions as may be agreed upon.

ARTICLE 13

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interest set forth opposite its name in Exhibit "B" of the Unit Agreement and hereby indemnifies and agrees to hold the other Working Interest Owners harmless from any loss and liability for damages due to failure (in whole or in part) of its title to any such interest, except failure of title arising out of operations hereunder; 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 shall 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 development and operating expenses, Unitized Substances or the proceeds therefrom, 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 Participation 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 contained herein shall ever be construed as creating a partnership of any kind, joint venture, or an association or trust between or among Working Interest Owners.

14.2 Settlements. In the event claim is made against a Working Interest Owner, or any Working Interest Owner is sued on account of any matter or thing arising from the development and operation of the Unit Area and over which such Working Interest Owner individually has no control because of the rights, powers and duties granted by this Agreement and the Unit Agreement, said Working Interest Owner shall immediately notify the Unit Operator of such claim or suit. Unit Operator shall assume and take over the further handling of such claim or suit and all costs and expenses of handling, settling or otherwise discharging such claim or suit shall be borne by Working Interest Owners as any other cost or expense of operating the Unit Area.

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, on request of individual Working Interest Owners, is hereby authorized and directed to execute on behalf of each requesting 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 the 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. In making this election, each of the parties hereto states that the income derived by him from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

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 hereof.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. If any Working Interest Owner so desires, it may withdraw from this Agreement by conveying, assigning and transferring, without warranty of title (either expressed or implied) to the other Working Interest Owners who do not desire to withdraw herefrom, all of the former's rights, title and interest in and to its lease or leases, or other operating rights in the Unit Area, insofar as said lease, leases or rights pertain to the Unitized Formation, together with the withdrawing Working Interest Owner's interest in all wells, pipe lines, casing, injection equipment facilities and other personal property used in conjunction with the development and operation of the Unit Area; provided, that such transfer, assignment or conveyance shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the execution and delivery thereof. The interest so transferred, assigned and conveyed shall be taken and owned by the other Working Interest Owners in proportion to their respective Unit Participations, and the Unit Operator shall recompute the percentage of participation to include this change and furnish the remaining Working Interest Owners with a corrected interest sheet. After the execution and delivery of such transfer, assignment or conveyance, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under said Unit Agreement; and the right of such Working Interest Owner to any benefits subsequently accruing hereunder and under said Unit Agreement shall cease; provided, that upon delivery of said transfer, assignment or conveyance, the assignees, in the ratio

of the respective interests so acquired, shall pay to the assignor for its interest in all jointly-owned equipment, casing and other personal property, the fair salvage value thereof, as estimated and fixed by the remaining Working Interest Owners.

17.2 Carved-out Interest Subject to this Agreement. In the event any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net profits, or carried interest, or any other interest out of its interest then subject to this Agreement, such carved-out interest shall be subject to the terms and provisions of this Agreement. In the event the Working Interest Owner owning the interest out of which the carved-out interest was created withdraws from this agreement under the terms and provisions of Article 17.1 hereof, or fails to pay any costs or expenses chargeable to such Working Interest Owner under this Agreement and the production to the credit of such Working Interest Owner is insufficient for that purpose, the owner of the carved-out interest will be liable for its prorata portion of all costs and expenses for which the Working Interest Owner that created such carved-out interest would have been liable hereunder by virtue of such Working Interest Owner's entire original interest, just as though such carved-out interest had not been created. In this event, the lien provided in Article 11.5 hereof may be enforced against such carved-out interest in the same manner as the lien was enforceable against the original interest out of which the carved-out interest was created.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the former Working Interest Owner of the tract on which such well is located, together with the amount (as estimated and fixed by the Working Interest Owners) to be the net salvage value of the casing and equipment in and on said well; said former Working Interest Owner shall have the right and option for a period of ninety (90) days after receipt of such notice to notify Unit Operator of its election to take over and own said well and to deepen or plug back said well to a formation other than the Unitized Formation. Within ten (10) days after said former Working Interest Owner of the tract has so notified Unit Operator of its desire to take over such well, it shall pay to Unit Operator, for credit to the joint account of the Working Interest Owners,

the amount of the net salvage value above described. At the same time the former Working Interest Owner taking over the well shall agree, by letter addressed to Unit Operator, to effectively seal off and protect the Unitized Formation and (at such time as the well is ready for abandonment) to plug and abandon the well in a workmanlike manner in accordance with applicable laws and regulations.

18.2 Plugging. In the event the former Working Interest Owner of a tract does not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in accordance 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 the Unit Agreement becomes effective.

19.2 Term. This Agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect and thereafter until all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20, hereof, and all personal and real property acquired for the joint account of Working Interest Owners has been disposed of by Unit Operator in accordance with instructions of Working Interest Owners.

ARTICLE 20

TERMINATION OF UNIT AGREEMENT

20.1 Termination. Upon termination of the Unit Agreement, the following shall occur:

20.1.1 Oil and Gas Rights. Possession of all oil and gas rights in and to the several separate tracts shall revert to the Working Interest Owners thereof.

20.1.2 Right to Operate. Working Interest Owners of any such tract desiring to take over and continue to operate a well or wells located thereon may do so by paying Unit Operator, for the credit of the joint account, the net salvage value of the casing and equipment in and on the well and by agreeing in writing to properly plug the well at such time as it is abandoned.

20.1.3 Salvaging Wells. With respect to all wells not taken over by Working Interest Owners, Unit Operator shall at the joint expense of Working Interest Owners salvage as much of the casing and equipment in or on such wells as can economically and reasonably be salvaged, and shall cause such wells to be properly plugged and abandoned.

20.1.4 Cost of Salvaging. Working Interest Owners shall bear the cost of salvaging and liquidation and participate in the distribution of assets and properties used in the development and operation of the Unit Area in proportion to their respective Unit Participation, as shown on Exhibit "C".

ARTICLE 21

COUNTERPART EXECUTION

21.1 Execution by Separate Counterparts or Ratifications. This Agreement may be executed in any number of counterparts and each counterpart so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument; or may be ratified by a separate instrument in writing referring to this Agreement. Each such ratification shall have the force and effect of an executed counterpart and of adopting by reference all of the provisions hereof.

ARTICLE 22

SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. The terms and provisions hereof shall be covenants running with the lands and unitized leases covered hereby and shall be binding upon and inure to the benefit of the respective heirs, successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

ATTEST:

Original Signed By:
John Fallwell, Jr.
By _____
Secretary
Secretary

AMBASSADOR OIL CORPORATION

ORIGINAL SIGNED
BY KENNETH L. SMITH
By _____
Vice President

Date: 12-1-63

EXHIBIT "C"

LANGLIE-MATTIX PENROSE SAND UNIT

LEA COUNTY, NEW MEXICO

<u>WORKING INTEREST OWNERS</u>	<u>TOTAL UNIT PARTICIPATION</u>
Ambassador Oil Corporation	16.520674
Amerada Petroleum Corporation	6.268204
The Atlantic Oil & Refining Company	0.780817
Broseco Corporation	1.257620
Carter Foundation Production Company	2.025285
Cities Service Petroleum Company	2.930762
Continental Oil Company	0.780817
John P. Cusack, Jr.	0.077925
J. P. Cusack	0.331180
Michael F. Cusack	0.077925
Frankfort Oil Company	16.520674
C. C. Forbes, Trustee of Nora Shaffer Trust No. 2	0.004870
C. C. Forbes, Trustee of Nora Shaffer Trust No. 3	0.004870
Gulf Oil Corporation	6.004279
Humble Oil & Refining Company	6.827544
Sam Noble	0.004870
Marathon Oil Company	0.972840
Pan American Petroleum Corporation	0.780817
R. L. Parker	1.070138
Sohio Petroleum Company	2.589058
John B. Rich	0.066190
A. H. Rowan & Estate of C. L. Rowan	1.543168
Samedan Oil Corporation	1.446476
Sinclair Oil & Gas Company	4.605509
Skelly Oil Company	14.163073
Socony Mobil Oil Company, Inc.	4.778750
The Standard Oil Company of Texas, a Division of California Oil Company	0.780817
Texaco	0.108706
Texas Pacific Coal & Oil Company	3.593054
Tidewater Oil Company	3.083088
TOTAL	100.000000

EXHIBIT " D "

PASO-T-1955-2

Attached to and made a part of Unit Operating Agreement, Langlie-Mattix Penrose Sand Unit, Lea County, New Mexico, dated

ACCOUNTING PROCEDURE (UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached. "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto. "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. Statements and Billings

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Subparagraph below: A. Statement in detail of all charges and credits to the joint account. B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof. C. Statements as follows: (1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties; (2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and (3) Detailed statement of any other charges and credits.

3. Payments by Non-Operator

Each party shall pay its proportion of all such bills within thirty (30) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of eight percent (8%) per annum until paid.

4. Adjustments

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

5. Audits

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

II. DEVELOPMENT AND OPERATING CHARGES

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

1. Rentals and Royalties

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

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other 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 applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience. C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, of this Section II.

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. Material

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

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations: A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

on the joint property

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

6. Service

- A. Outside Services:
The cost of contract services and utilities procured from outside sources.
- B. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

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

8. Litigation Expense

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

- A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.
- B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

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

10. Insurance and Claims

- A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
- B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. District and Camp Expense (Field Supervision and Camp Expense)

~~A pro rata portion of the salaries 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 _____ (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.~~

No charges for District and Camp Expense will be separately made, as such charges have been agreed upon, included in and made a part of the charges below set forth under Paragraph 12. hereof.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	Each Well	Each Well	Each Well
All depths	\$350.00	\$ 75.00	Each Well	Each Well

- A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. In connection with overhead charges, the status of wells shall be as follows:
- (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
- (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
- (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

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

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

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

1. Material Purchased by the Operator or Non-Operator

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

2. Division in Kind

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

3. Sales to Outsiders

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

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

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

3. Good Used Material

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

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

4. Other Used Material

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

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

5. Bad-Order Material

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

6. Junk

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

7. Temporarily Used Material

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

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

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

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

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

2. Reconciliation and Adjustment of Inventories

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

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

3. Special Inventories

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

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

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

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

14. Other Expenditures

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

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

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

2. Material Furnished by Operator

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

A. New Material (Condition "A")

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

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

5. Operator's Exclusively Owned Facilities

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

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

EXHIBIT "E"

INSURANCE PROCEDURE

(A) Unit Operator agrees that it will require its contractors or sub-contractors to carry insurance as follows to cover drilling operations for the production of Unitized Substances on all lands subject to this Agreement:

- (1) Workmen's Compensation and Employer's Liability Insurance as required by the laws of the State of New Mexico, but in an amount not less than \$100,000.00;
- (2) Contractor's Public Liability Insurance in amounts of \$100,000.00 for injuries to one person, and \$200,000.00 for injuries in one accident and property damage covering premise operations with \$100,000.00 limit for any one accident;
- (3) Automobile Public Liability and Property Damage Insurance in amounts of \$100,000.00 for injuries to one person; \$200,000.00 for injuries in one accident; and \$100,000.00 limit for any one accident for property damage.

(B) With respect to Unit Operations (other than drilling operations) on all lands subject to this Agreement, Unit Operator shall carry Workmen's Compensation Insurance as required by the laws of the State of New Mexico, and Employer's Liability Insurance with minimum limits of \$100,000.00; Public Liability and Property Damage Insurance in amounts of \$100,000.00 for injury or death to one person; \$300,000.00 for one accident, and \$100,000.00 Property Damage for any one accident; Automobile Public Liability and Property Damage Insurance in amounts of \$100,000.00 for injury or death to one person, \$250,000.00 for one accident, and \$100,000.00 for any one accident for property damage.

(C) All insurance coverage required hereby shall be carried at the joint expense and for the benefit of the parties hereto. However, premiums for Automobile, Public Liability and Property Damage Insurance on Unit Operator's fully owned equipment shall not be charged directly to the joint account, but will be covered by the flat rate charges assessed for use of such equipment. Unit Operator will not carry fire, windstorm and explosion insurance covering operations hereunder. Unit Operator agrees to promptly furnish Working Interest Owners with written reports of damage to Unit property in excess of \$1,500.00 resulting from any hazards, whether or not covered by insurance.

(D) The insurance program provided for in this paragraph shall be made effective by Unit Operator upon the effective date hereof. Changes in such insurance program may, however, thereafter be made by Working Interest Owners.

AMBASSADOR OIL CORPORATION

AMBASSADOR BUILDING

3109 WINTHROP P. O. Box 9338

FORT WORTH 7, TEXAS

F. KIRK JOHNSON
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

C. HARRISON COOPER
PRESIDENT

CABLE ADDRESS
FRANJO, FORT WORTH

BEFORE EXAMINER UTZ

CONSERVATION COMMISSION

EXHIBIT NO. F RE:
CASE NO. 2954

PROPOSED WATERFLOOD
LANGLIE-MATTIX PENROSE SAND UNIT
LEA COUNTY, NEW MEXICO

DEAR SIR:

PURSUANT TO PLANS OUTLINED HEREIN, THE ATTACHED REPORT ENTITLED "PROPOSED PLAN OF WATERFLOOD OPERATION", AMBASSADOR OIL CORPORATION HEREBY APPLIES FOR DESIGNATION OF CERTAIN TRACTS OF LAND IN TOWNSHIP 22-S, R-37-E, LEA COUNTY, NEW MEXICO, MORE SPECIFICALLY DESCRIBED IN THE UNIT AGREEMENT HEREWITH ENCLOSED, FOR PRELIMINARY APPROVAL AS AN AREA LOGICALLY SUBJECT TO DEVELOPMENT AND OPERATION UNDER A UNIT AGREEMENT TO BE KNOWN AS THE LANGLIE-MATTIX UNIT PENROSE SAND UNIT.

THE EXHIBITS HEREINAFTER REFERRED TO ARE A PART OF THE ABOVE-MENTIONED REPORT.

EXHIBIT A IS A MAP CONTAINED IN THE UNIT AGREEMENT, IDENTIFYING EACH TRACT BY NUMBER.

EXHIBIT B, ALSO CONTAINED IN THE UNIT AGREEMENT, IS A SCHEDULE SHOWING TRACT NUMBERS, DESCRIPTION, ACREAGE, LEASE SERIAL NUMBER, KIND OF OWNERSHIP AND TRACT PARTICIPATION PERCENTAGE FOR ALL TRACTS IN THE PROPOSED UNIT, TO THE EXTENT SHOWN BY THE APPLICANT.

EXHIBIT C IS A MAP SHOWING THE PRESENT PILOT FLOOD AREA, THE TENTATIVE STAGED DEVELOPMENT PLAN AND PROPOSED WATER INJECTION WELL PATTERN.

EXHIBIT D IS A WELL STATUS REPORT BY LEASES.

THE PRODUCTIVE ZONE PROPOSED IN THIS UNITIZATION APPLICATION IS THE LANGLIE-MATTIX ZONE AND IS DEFINED AS THE LOWER 100 FEET OF THE SEVEN RIVERS AND ALL OF THE QUEEN FORMATION THROUGHOUT THE UNIT AREA. THIS ZONE IS LOCALLY NAMED THE PENROSE SAND. THE SAND OCCURS IN MULTIPLE STRINGERS, OR LENSES WITHIN A DENSE DOLOMITIC LIMESTONE WITH AN OVERALL GROSS THICKNESS OF 369 FEET IN SINCLAIR OIL & GAS COMPANY'S CHRISTMAS No. 3; COPY OF LOG IS INCLUDED (EXHIBIT J) IN THE ATTACHED REPORT.

THE PROPOSED UNIT, EMBRACING ^{3,920}~~3,880~~ ACRES MORE OR LESS IS CONTAINED IN ALL OR PORTIONS OF SECTIONS 14, 20, 21, 22, 23, 26, 27, 28, 29, 32, 33, AND 34 TOWNSHIP 22-S, RANGE 37-E OF LEA COUNTY, NEW MEXICO. A TOTAL OF ^{THIRTY-TWO (32)}~~THREE (3)~~ TRACTS CONTAINING ²⁸⁰~~280~~ ACRES OR 7.21 PERCENT ARE FEDERAL LANDS, ^{EIGHT (8)}~~SEVEN (7)~~ TRACTS CONTAINING 680 ACRES OR 17.53 PERCENT ARE STATE LANDS AND ^{THIRTY-TWO (32)}~~TWENTY-SEVEN (27)~~ TRACTS CONTAINING 2,920 ACRES OR 75.26 PERCENT ARE FEE LANDS.

IT WILL BE NOTED THAT ALL WELLS SHOWN ON THE EXHIBITS ARE NOT CONTAINED WITHIN THE PROPOSED UNIT BOUNDARIES. THE OWNERS OF THE CONTIGUOUS ACREAGE TO THE WEST AND SOUTHWEST, HUMBLE OIL & REFINING'S STATE "M" LEASE, W/2, W/2 NE/4 AND NW/4 SE/4 OF SEC. 29; COMPASS EXPLORATION'S STATE LEASE, NW/4 OF SEC. 32; OPERATORS SERVICE COMPANY'S COLE STATE LEASE, NW/4 NE/4 OF SEC. 32; TEXAS PACIFIC COAL AND OIL COMPANY'S ELLIOTT "B" FEDERAL LEASE, S/2 SE/4 OF SEC. 29, AND OSCAR BOURG DRILLING COMPANY'S STATE LEASE, SW/4 OF SEC. 32 AND KING LEASE, E/2 SE/4 AND NW/4 SE/4 OF SEC. 32 HAVE DECLINED TO PARTICIPATE IN THE UNIT DUE TO THE WELLS CONTAINED IN THE AREAS DESCRIBED ABOVE BEING RECENTLY DRILLED AND PRIMARY PRODUCTION STILL RELATIVELY HIGH. SKELLY OIL COMPANY WHO HAS ACREAGE ALONG THE SOUTHERN BOUNDARY DECLINED TO PLACE THEIR KING LEASE SW/4 OF SEC. 33, SIMS LEASE, SE/4 OF SEC. 33 AND SIMS LEASE SW/4 OF SEC. 34 WITHIN THE UNIT DUE TO THE PLANNING OF A WATERFLOOD OF THEIR OWN IN THESE AREAS BASED ON INFORMATION GAINED FROM THE COOPERATIVE FLOOD IN WHICH THEY ARE PARTICIPATING WITH AMBASSADOR AND HUMBLE. THE WELLS ON ADJACENT ACREAGE TO THE NORTH AND EAST ARE PRODUCING FROM A DIFFERENT RESERVOIR THAN THE SUBJECT UNIT; NAMELY THE GRAYBURG (PENROSE-SKELLY) TO THE NORTH AND THE TUBBS TO THE EAST. ADJACENT OPERATORS TO THE PROPOSED UNIT WHO HAVE WELLS COMPLETED IN THE PENROSE AND HAVE DECLINED TO ENTER, HAVE STATED THAT THEY WILL COOPERATE ALONG LEASE LINES THUS AFFORDING EQUITY TO ALL CONCERNED.

WITHIN THE UNIT BOUNDARIES THERE ARE THREE UNDEVELOPED FORTY (40) ACRE TRACTS, CITIES SERVICE PETROLEUM COMPANY'S ANNA WALDEN LEASE, SW/4 NW/4 OF SEC. 21, TEXAS PACIFIC COAL AND OIL COMPANY'S WILL CARY LEASE, SW/4 NW/4 OF SEC. 22, AND SOCONY MOBIL OIL COMPANY'S WILL CARY LEASE NW/4 SW/4 OF SEC. 21. THESE TRACTS ALTHOUGH UNDEVELOPED, HAVE BEEN EITHER PARTIALLY OR TOTALLY DRAINED BY OTHER TRACT WELLS DURING THE PRIMARY PHASE. THESE TRACTS CAN BE ECONOMICALLY DEVELOPED WHEN THE INJECTION PATTERN IS EXPANDED AND THUS INSURE AND INCREASE MAXIMUM OIL RECOVERY FROM THESE AND ADJACENT TRACTS.

PRESENTLY THERE ARE NINETY (90) WELLS IN THE PROSPECTIVE UNIT AREA, SEVENTY-FIVE (75) OF WHICH ARE ACTIVELY PRODUCING FROM THE PENROSE SAND. OF THE FIFTEEN (15) INACTIVE PRODUCERS, FOUR (4) ARE ON INJECTION STATUS, EIGHT (8) ARE SHUT-IN, AND THREE (3) ARE TEMPORARILY ABANDONED. PRODUCTION FROM THE ACTIVE WELLS WAS 6,788 BARRELS FOR THE MONTH OF MAY, 1962. THE AVERAGE DAILY OIL PRODUCTION PER WELL WAS 2.9 BARRELS (EXCLUDING THE INACTIVE WELLS) AND RANGES FROM 0.2 BOPD TO 23.0 BOPD. THE LARGE RANGE IS DUE TO THE COOPERATIVE PILOT FLOOD RESPONSE AS DISCUSSED IN THE FOLLOWING PARAGRAPH. ATTACHED IS EXHIBIT "D" GIVING A WELL STATUS REPORT BY LEASE, AND TABLES 3 AND 4 GIVING TABULATION OF PRODUCTION BY LEASE AND WELL.

DUE TO THE COOPERATIVE PILOT FLOOD BEING IN OPERATION LONG ENOUGH (INITIATED AUGUST 27, 1953) TO ALLOW WELL RESPONSE, THE ABOVE DAILY AVERAGE PER WELL IS, OF COURSE, SOMEWHAT HIGHER THAN NORMAL. EXCLUDING THE LEASES ON

WHICH RESPONSE HAS BEEN INDICATED THE AVERAGE PER WELL IS 2.4 BOPD FOR THE MONTH OF MAY, 1962 AND RANGES FROM 0.2 TO 8.3 BOPD. THOSE LEASES SHOWING FLOOD RESPONSE ARE HUMBLE OIL & REFINING COMPANY'S STATE "H" AND AMBASSADOR OIL CORPORATION'S T.O. MAY AND HUMBLE STATE LEASES. SKELLY OIL COMPANY'S H. O. SIMS LEASE WHICH IS NOT WITHIN THE PROSPECTIVE UNIT AREA BUT IS INCLUDED IN THE COOPERATIVE PILOT HAS ALSO SHOWN AN INCREASE IN PRODUCTION DUE TO THE PILOT. THEREFORE, IT CAN BE SEEN THAT THE ECONOMIC LIMIT OF 3 BOPD PER WELL HAS BEEN REACHED ON AN AVERAGE. ALSO, IT IS NOTED THAT MORE THAN (81,757 BARRELS) THE PREDICTED REMAINING PRIMARY RESERVES AS OF JULY 1, 1961 (59,848 BARRELS) HAS BEEN PRODUCED FROM JULY 1, 1961 THROUGH JUNE 1, 1962. THIS APPROXIMATE 21,000 BARRELS OVER THE PREDICTION IS DUE TO THE PILOT RESPONSE AND ALSO INCLUDES SOME OIL PRODUCED BELOW THE ECONOMIC LIMIT.

THE SELECTED INJECTION PATTERN ADEQUATELY PROTECTS THE CORRELATIVE RIGHTS OF THE VARIED INTERESTS INVOLVED (U.S. GOVERNMENT, STATE AND INDIVIDUAL ROYALTIES, AND THE WORKING INTEREST); ALSO IT WILL RESULT IN THE MOST EFFICIENT DISPLACEMENT OF THE REMAINING RECOVERABLE OIL IN PLACE.

THE UNIT AGREEMENT AND UNIT OPERATING AGREEMENT (COPIES ATTACHED) HAVE BEEN PATTERNED AFTER AGREEMENTS PREVIOUSLY APPROVED BY YOUR OFFICE.

IT IS AMBASSADOR OIL CORPORATION'S INTENTION AS UNIT OPERATOR AND WORKING INTEREST OWNER, TO CONDUCT THE FLOOD IN A WORKMANLIKE MANNER, ENGAGING ALL STEPS NECESSARY TO RESTRICT INJECTED WATER TO THE PENROSE SAND. SUFFICIENT FACILITIES WILL BE CONSTRUCTED AND MAINTAINED TO GATHER, TREAT AND DISTRIBUTE INJECTION WATER. THOROUGH RECORDS OF PROJECT PERFORMANCE WILL BE MAINTAINED IN THE UNIT FIELD OFFICE (ADDRESS BELOW) AND WILL BE AVAILABLE FOR YOUR INSPECTION AT ALL TIMES:

AMBASSADOR OIL CORPORATION
EUNICE, NEW MEXICO

IN CONCLUSION WE HEREIN REQUEST YOUR APPROVAL OF THE AREA DESIGNATED FOR THE SUBJECT UNITIZED WATERFLOOD, THE PARTICIPATION FORMULA, AND THE UNIT AGREEMENT AND UNIT OPERATING AGREEMENT. WE WOULD SINCERELY APPRECIATE YOUR CONSIDERING THIS MATTER AT YOUR EARLIEST CONVENIENCE.

YOURS VERY TRULY,

E. A. RILEY
ASSISTANT VICE-PRESIDENT
MANAGER OF SECONDARY RECOVERY DIV.

PROPOSED PLAN OF WATERFLOOD OPERATIONS

FOR

LANGLIE-MATTIX PENROSE SAND UNIT

LEA COUNTY, NEW MEXICO

SUBMITTED BY: AMBASSADOR OIL CORPORATION

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- | | |
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I. HISTORY

THE PROPOSED UNIT AREA WITHIN THE LANGLIE-MATTIX FIELD CONTAINS SOME WELLS PRODUCING FROM THE DRINKARD ZONE AT APPROXIMATELY 6500 FEET; HOWEVER ONLY THOSE WELLS PRODUCING FROM THE QUEEN ZONE AND THE LOWER 100 FEET OF THE SEVEN RIVERS, ARE CONSIDERED IN THE PLAN. THIS PORTION OF THE FIELD WAS ORIGINALLY INCLUDED IN THE PENROSE-SKELLY FIELD BUT IS NOW CARRIED AS THE LANGLIE-MATTIX FIELD IN THE NEW MEXICO OIL CONSERVATION COMMITTEE RECORDS.

THE LANGLIE-MATTIX FIELD DISCOVERY WELL, ANDERSON PRICHARD'S No. 1 LANGLIE (N. SEC. 19, 25-S 37-E) WAS COMPLETED DURING SEPTEMBER 1, 1935.

NORMAL COMPLETION PRACTICE DURING EARLY FIELD DEVELOPMENT WAS TO SET THE PRODUCTION STRING IN THE UPPER SECTION OF WHAT WAS TERMED THE LANGLIE-MATTIX ZONE. COMPLETION WAS THEN MADE IN THE OPEN HOLE WITH THE USE OF A NITROGLYCERIN SHOT RANGING FROM 100 TO 600 QUARTS; ACID WAS ALSO EMPLOYED FOLLOWING CLEANOUT OPERATIONS. A SMALL NUMBER OF WELLS WERE EITHER EQUIPPED WITH LINERS OR THE OIL STRING SET THROUGH AND PERFORATED. FOLLOWING THE INTRODUCTION OF HYDRAULIC FRACTURING TO THE OIL INDUSTRY, A NUMBER OF WELLS WERE RE-STIMULATED WITH VARYING SUCCESS.

A COMPILATION OF WELL COMPLETION DATA IS PRESENTED IN TABLE I.

A COOPERATIVE PILOT FLOOD, INDICATED ON EXHIBIT "C", WAS INITIATED AUGUST 27, 1953, AND TO DATE HAS RESPONDED ON HUMBLE OIL & REFINING COMPANY'S HUMBLE STATE "H" LEASE AND AMBASSADOR OIL CORPORATION'S T. O. MAY AND HUMBLE STATE LEASES; SKELLY OIL COMPANY'S H. O. SIMS LEASE WHICH IS NOT WITHIN THE PROSPECTIVE UNIT AREA BUT IS INCLUDED IN THE COOPERATIVE PILOT HAS ALSO SHOWN AN INCREASE IN PRODUCTION DUE TO PILOT FLOOD RESPONSE. SINCE INITIATION OF THIS PILOT FLOOD (LOCATION EXHIBIT A) AMBASSADOR, HUMBLE AND SKELLY HAVE INJECTED A CUMULATIVE VOLUME OF 1,983,322 BW (INTO 3 WELLS), 478,327 BW (INTO 1 WELL) AND 1,618,711 BW (INTO 2 WELLS) RESPECTIVELY, FOR A GRAND CUMULATIVE TOTAL OF 4,080,360 BW INTO THE SIX WELL PILOT AREA. THE ATTACHED LEASE PRODUCTION CURVES (EXHIBIT F) REVEAL THE RELATIVE RESPONSE AND SUCCESS OF THE PILOT FLOOD ON AMBASSADOR'S T. O. MAY AND HUMBLE STATE LEASES AND HUMBLE'S STATE "A" LEASE. SKELLY HAS SHOWN THAT OF THE 76,179 BARRELS RECOVERED ON THEIR H.O. SIMS LEASE, THAT 58,6450 BARRELS IS CONSIDERED SECONDARY OIL. IN ALL, IT IS FELT THAT THE RELATIVE SUCCESS OF THIS PILOT FLOOD SUBSTANTIATES EXPANSION THROUGH UNITIZATION.

II. GEOLOGY

THE LANGLIE-MATTIX FIELD HAS AT LEAST THREE PRODUCTIVE ZONES, THE YATES, SEVEN RIVERS, AND QUEEN; HOWEVER ONLY WELLS WHICH PRODUCE FROM THE LOWER 100 FEET OF THE SEVEN RIVERS AND THE LATTER HORIZON ARE BEING CONSIDERED IN THE PROSPECTIVE UNIT. MORE SPECIFICALLY, THESE WELLS PRODUCE FROM THE LOCALLY NAMED PENROSE SAND OF THE GUADALUPE SERIES OF THE PERMIAN SYSTEM.

THE RESERVOIR IS A STRATIGRAPHIC TRAP, CONSISTING OF MULTIPLE SAND STRINGERS, OR LENSES IN A DENSE DOLOMITIC LIMESTONE WHICH WERE DEPOSITED ALONG THE WESTERN EDGE OF THE CENTRAL BASIN PLATFORM DURING A PERIOD OF MILD GEOLOGIC DISTURBANCE. PRODUCTION IS CONTROLLED BY POROSITY OR PERMEABILITY DEVELOPMENT. THE FIELD TRENDS NORTH-SOUTH, AND DIPS GENTLY TO THE SOUTH AT 25 - 60 FT. PER MILE. IN THE UNIT AREA SOME MILD LOCALIZED DIPPING TO THE WEST OCCURS WITH THE DEVELOPMENT OF A "SHALLOW TROUGH" ALONG THE BOUNDARY OF THE UNIT ON THAT SIDE. ACROSS THE MAJOR PORTION OF THE UNIT THE PAY ZONE IS VERY FLAT.

TOTAL GROSS PAY THICKNESS IS 369 FEET. NET PAY IS ALMOST IMPOSSIBLE TO DETERMINE SINCE THE INDIVIDUAL SAND BODIES DO NOT DISCERNIBLY OCCUR OVER A WIDE AREA; HOWEVER, FOR THE PURPOSE OF ANALYSIS IT HAS BEEN ESTIMATED AT 25 FEET. IT IS NOT KNOWN WHETHER DISCONTINUITY EXISTS OR IF IT WILL BE DETRIMENTAL TO WATERFLOOD OPERATIONS; HOWEVER, PERFORMANCE OF THE PILOT FLOOD TENDS TO INDICATE THAT FLOODING WILL BE FEASIBLE.

AVERAGE DRILLING DEPTH TO TOP OF PAY IS APPROXIMATELY 3,300 FEET.

III. ROCK AND FLUID CHARACTERISTICS

A CORE ANALYSIS TAKEN AT AMBASSADOR OIL CORPORATION'S T. O. MAY No. 5 ANALYZED BY EARLOUGHER ENGINEERING, INDICATES ROCK PROPERTIES AS LISTED IN THE FOLLOWING SUMMARY:

GROSS SECTION: CORED	143.0 FEET
NET OIL SAND	33.8 FEET
PERMEABILITY	4.3 MILLIDARCYS (WEIGHTED AVERAGES)
POROSITY	13.3 PERCENT
OIL SATURATION	18.0 PERCENT (AVERAGE)
CONNATE WATER SATURATION	40.0 PERCENT
FORMATION VOLUME FACTOR	1.2
ORIGINAL GAS IN SOLUTION	751.0 SCF/B
INITIAL BHP	1457.0 PSI

THE CORED SECTION WAS PREDOMINATELY DENSE SANDY DOLOMITE WITH THE 33.8 NET FEET OF OIL SAND OCCURRING IN FOUR SEPARATE ZONES AS FOLLOWS:

3577.8 TO 3595.0	16.5 NET FEET
3630.8 TO 3643.9	10.3 NET FEET
3659.7 TO 3633.9	4.1 NET FEET
3676.9 TO 3679.8	2.9 NET FEET

LABORATORY WATERFLOODING TESTS INDICATED THE PERMEABILITY TO FRESH WATER WAS ERRATIC AND GENERALLY FOLLOWED THE PERMEABILITY PROFILE.

FOR ADDITIONAL CORE ANALYSIS DATA REFER TO TABLE 2 AND EXHIBIT K.

ANALYSIS OF THE FLUID CHARACTERISTICS INDICATE A SWEET CRUDE WITH A PARAFFIN. BASE AND AN AVERAGE GRAVITY OF 37° API. THE GAS IN THE SOUTH PORTION OF THE FIELD IS SOUR WHEREAS IN THE NORTH PORTION OF THE FIELD THE GAS IS SWEET.

IV. PRIMARY RECOVERY AND PREDICTED SECONDARY RECOVERY

TOTAL CUMULATIVE PRIMARY OIL PRODUCTION WITHIN THE PROSPECTIVE UNIT AREA AS OF JULY 1, 1961 WAS 6,297,178 BARRELS WHICH EXCLUDES PRODUCTION DETERMINED TO BE DUE TO PILOT FLOOD OPERATIONS (CUMULATIVE OF 6,314,207 BARRELS INCLUDING ALL PRODUCTION). THIS DIFFERENCE OF 17,029 BARRELS WAS TAKEN FROM AMBASSADOR'S T. O. MAY LEASE AS INDICATED ON ITS DECLINE CURVE CONTAINED IN EXHIBIT F. ALL OPERATORS AGREED THIS VOLUME SHOULD BE DEDUCTED FROM THE CUMULATIVE SINCE IT WAS EVIDENT THAT IT WAS DUE TO PILOT FLOOD RESPONSE. SECONDARY RECOVERY BY WATERFLOOD HAS BEEN PREDICTED AT 5,000,000 BARRELS OR 80% OF THE ACCUMULATED PRIMARY RECOVERY.

DECLINE CURVES FOR EACH OF THE LEASES TO BE INCLUDED IN THE UNIT ARE ATTACHED (EXHIBIT F).

THERE ARE NINETY (90) WELLS IN THE UNIT AREA, SEVENTY-FIVE (75) OF WHICH ARE CURRENTLY PRODUCING FROM THE PENROSE SAND. THE AVERAGE DAILY PRODUCTION PER WELL IS 2.4 BARRELS AFTER EXCLUDING THE INACTIVE WELLS AND THOSE WELLS BEING AFFECTED BY THE PILOT FLOOD.

V. UNIT PARTICIPATION FORMULA

ATTACHED IS A "TABULATION OF UNITIZATION INFORMATION" (EXHIBIT "E") GIVING PERTINENT DATA REGARDING A TENTATIVE PARTICIPATION FORMULA. THE PARTICIPATION FORMULA IS BASED ON THE PARAMETER OF 100% ULTIMATE PRIMARY RECOVERY.

THE REASONING BEHIND THE OPERATORS ARRIVING AT THIS FORMULA IS BASED ON A NUMBER OF FACTORS WHICH MAKE IT EQUITABLE TO ALL CONCERNED. PRIMARY PRODUCTION IS CONSIDERED ONE OF THE MOST REVEALING FACTORS IN PREDICTING RESERVOIR CAPACITY AND RESERVES IN PLACE WHEN, OF COURSE DEVELOPMENT IS PROPERLY WEIGHED. IN THIS CASE THE MAJORITY OF THE WELLS WERE COMPLETED ABOUT THE SAME TIME AS CAN BE SEEN ON TABLE 1, AND HAVE BEEN PRODUCING FOR A CONSIDERABLE LENGTH OF TIME. THEY ARE PRESENTLY PRODUCING AN AVERAGE OF 2.4 BOPD WHICH IS JUST BELOW THE ECONOMIC LIMIT OF 3 BOPD. ON MANY OF THE OLDER PROJECTS, OF WHICH THIS IS ONE, THE ONLY FACTUAL DATA AVAILABLE IS PRODUCTION, WHICH IS PUBLIC INFORMATION AND REQUIRES NO INTERPRETATION.

THE OPERATORS COMMITTEE CHARGED THE ENGINEERING COMMITTEE TO CONTRIVE A PARTICIPATION FORMULA WHICH WOULD INCLUDE VOLUMETRIC PARAMETERS. A STUDY OF ALL AVAILABLE INFORMATION REVEALED THAT THERE WAS A LACK OF LOGS, CORE ANALYSIS, ETC. MAKING IMPOSSIBLE THE CONSTRUCTION OF A RELIABLE ISOPACH OR PAY ZONE QUALITY MAP. SINCE IT WAS EVIDENT FROM THE INFORMATION AVAILABLE, THAT THE PROSPECTIVE ZONE WAS STRINGERED, THE POSSIBILITY OF A VOLUMETRIC PARAMETER WAS RULED OUT. THE USE OF WELLS AS A PARAMETER WAS ALSO CONSIDERED; HOWEVER DUE TO A FEW UNDRILLED TRACTS; ALSO SOME IRREGULAR WELL SPACING, THIS FACTOR WAS NOT CONSIDERED FURTHER.

VI. UNIT AREA DESIGNATION

THE ATTACHED PLAT, EXHIBIT "A", DEPICTS THE UNIT LIMITS DECIDED UPON BY THE OPERATORS IN THE AREA. THE PROSPECTIVE UNIT IS CONTAINED PARTIALLY AND IN WHOLE IN SECTIONS 14, 20, 21, 22, 23, 26, 27, 28, 29, 32, 33, AND 34. R-37-E, T-22S OF LEA COUNTY, NEW MEXICO. ORIGINALLY AN ATTEMPT WAS MADE TO INCLUDE LEASES OPERATED BY HUMBLE OIL AND REFINING COMPANY TO THE WEST, COMPASS EXPLORATION, OPERATORS SERVICE COMPANY, TEXAS PACIFIC COAL AND OIL COMPANY, AND OSCAR BOURG DRILLING COMPANY TO THE SOUTHWEST AND SKELLY OIL COMPANY TO THE SOUTH; HOWEVER HUMBLE, OPERATORS SERVICE COMPANY, TEXAS PACIFIC COAL & OIL COMPANY, AND OSCAR BOURG DRILLING COMPANY DECLINED TO PARTICIPATE DUE TO THEIR WELLS BEING RECENTLY COMPLETED AND PRIMARY PRODUCTION RELATIVELY HIGH; WHEREAS SKELLY DECLINED ON THE BASIS OF A WATERFLOOD OF THEIR

OWN WHICH THEY ARE CONTEMPLATING DUE TO THE INDICATED SUCCESS OF THE COOPERATIVE PILOT FLOOD ON THEIR ACREAGE. WELLS ON ADJACENT ACREAGE TO THE NORTH AND EAST ARE PRODUCING FROM A DIFFERENT RESERVOIR THAN THE PROSPECTIVE UNIT. OPERATORS WITH CONTIGUOUS PRODUCING PROPERTIES AND WELLS COMPLETED IN THE PENROSE HAVE STATED THAT THEY WILL COOPERATE ALONG LEASE LINES THUS AFFORDING AN EQUITABLE SITUATION.

VII. UNDEVELOPED TRACTS

THE UNDEVELOPED TRACTS HAVE BEEN DISCUSSED AND DETERMINED TO BE PARTIALLY OR TOTALLY DRAINED THUS DISALLOWING AN INEQUITY IN THE PROPOSED PARTICIPATION FORMULA. THESE TRACTS CAN BE ECONOMICALLY DEVELOPED WHEN THE INJECTION PATTERN IS EXPANDED AND THUS INSURE AND INCREASE MAXIMUM OIL RECOVERY FROM THESE AND ADJACENT TRACTS.

VIII. WATER SOURCE

THE SUPPLY WATER FOR THE EXISTING PILOT FLOOD IS SUPPLIED FROM FOUR SHALLOW FRESH WATER WELLS COMPLETED AT 200 FEET AND ONE WELL COMPLETED IN THE SANTA ROSA FORMATION WHICH OCCURS AT APPROXIMATELY 800 FEET. THE PRESENT TOTAL CAPACITY OF THE SHALLOW WELLS IS 500 BWPD WHILE THE CAPACITY OF THE SANTA ROSA SUPPLY WELL IS 1400 BWPD. EACH SANTA ROSA SUPPLY WELL MUST HAVE A CAPACITY OF APPROXIMATELY 2500 B/D TO ALLOW PROPOSED INJECTION RATES; CONSEQUENTLY IT IS PLANNED TO STIMULATE THE WELL WITH THE HYDRAULIC FRACTURE PROCESS.

IX. WATER STATIONS AND INJECTION EQUIPMENT

DEVELOPMENT OF THE INJECTION SYSTEM AND WATER STATIONS WILL BE GOVERNED BY TWO FACTORS: (1) FIELD PERFORMANCE AND (2) NEW MEXICO OIL CONSERVATION COMMISSION RULES. THIS UNIT WILL OPERATE IN COMPLIANCE WITH THE ORIGINAL RULE NO. 701 WHICH IN EFFECT, ALLOWS RESPONDING WELLS TO PRODUCE AT CAPACITY AND FURTHER STATES THAT DEVELOPMENT MAY PROGRESS FROM THE PILOT AREA AS WELLS RESPOND TO THE WATERFLOODING OPERATION. THIS WILL RESULT IN A STAGE DEVELOPMENT PROGRAM AS PROPOSED IN EXHIBIT "C".

AN ADDITIONAL PRESSURE PUMP AND GAS ENGINE WILL BE INSTALLED IN THE PRESENT WATER STATION AS DICTATED BY WATERFLOOD RESPONSE. THE TWO PROPOSED WATER STATIONS WILL EACH CONSIST OF TWO VERTICAL TRIPLEX PRESSURE PUMPS, TWO GAS ENGINES COMPLETELY EQUIPPED FOR AUTOMATION AND SAFETY CONTROLS, ONE CENTRAL FILTER AND ACCESSORIES. THE CAPACITY OF EACH WATER STATION WILL BE 6,000 B/D AT 2500 PSI MAXIMUM WORKING PRESSURE.

THE INJECTION SYSTEM WILL UTILIZE THE FOLLOWING PIPE SIZES: 4", 3", 2½", AND 2". THE SYSTEM WILL BE CEMENT-LINED, WELDED, BURIED, AND SO DESIGNED THAT THE SUMMATION OF FRICTION LOSS WILL NOT EXCEED 100 PSI ON ANY LINE SEGMENT FROM THE ORIGINATING POINT TO THE END DELIVERY POINT.

X. PRODUCTION EQUIPMENT AND OIL WATER GATHERING SYSTEM

PUMPING EQUIPMENT, SURFACE AND SUBSURFACE, WILL BE ENLARGED ON INDIVIDUAL WELLS AS DICTATED BY FLOOD PERFORMANCE. DEPENDING UPON PRODUCING RATE, THE PUMPING UNIT REQUIREMENTS WILL BE SATISFIED BY A 160,000 IN-LB. OR A 228,000 IN-LB. RATED BEAM UNIT. BY THE SAME REQUIREMENTS THE PRIME MOVER WILL BE AN $8\frac{1}{2}$ " x 16" OR A $9\frac{1}{2}$ " x 12" GAS ENGINE OR EQUIVALENT. ENLARGED SUBSURFACE EQUIPMENT WILL CONSIST OF A $2\frac{1}{4}$ " TUBING PUMP, $2\frac{1}{2}$ " TUBING, AND A COMBINATION STRING OF $7/8$ " AND $3/4$ " SUCKER RODS. THIS EQUIPMENT HAS A CAPACITY OF 500-600 BPD.

THE PRODUCED OIL AND WATER GATHERING LINES FROM INDIVIDUAL WELLS WILL CONVERGE TO A HEADER AND THUS ON TO A CENTRAL TANK BATTERY THROUGH TRUNK LINE SYSTEMS. THE CENTRAL TANK BATTERIES WILL BE UTILIZED UNTIL IT BECOMES ECONOMICALLY FEASIBLE TO INSTALL A LACT UNIT.

SEMI-AUTOMATIC WELL TESTING UNITS WILL BE PLACED IN OPERATION AT THE CENTRALIZED TANK BATTERY LOCATIONS TO FACILITATE INDIVIDUAL WELL TESTING. THE FLUID FROM THE INDIVIDUAL WELLS WILL BE METERED TO A STATELLITE COLLECTION POINT AND THE WELL TO BE TESTED WILL BE TURNED MANUALLY INTO A TEST LINE. THE FLUID WILL FLOW TO THE TEST UNIT, METERED, AND DIRECTED INTO THE RESPECTIVE STORAGE TANKS.

EXHIBIT "D"
WELL STATUS BY LEASE

OPERATOR, LEASE AND NUMBER OF WELLS		ACTIVE PRODUCERS	INACTIVE	PRODUCING FROM	PROD. 7/1/61 TO 11/ 1/61	P (PUMPING) F (FLOWING)
<u>AMBASSADOR OIL CORP.</u>						
ANNIE CHRISTMAS	1	1	-	PENROSE SAND	67	P
ANNIE CHRISTMAS "A"	6	5	1 (SHUT IN)	PENROSE SAND	1,321	F
B. A. CHRISTMAS "B"	1	1	-	PENROSE SAND	96	F
M. W. COLL	2	2	-	PENROSE SAND	568	P
GEORGE GLIER, ET AL	3	2	1 (SHUT IN)	PENROSE SAND	406	P
ROSA GLIER	2	1	1 (SHUT IN)	PENROSE SAND	345	P
ROSA GLIER "A"	1	1	-	PENROSE SAND	42	F
ROSA GLIER "B"	2	1	1 (SHUT IN)	PENROSE SAND	49	F
ELIZA GRAHAM	1	1	-	PENROSE SAND	472	P
HUMBLE STATE	4	3	1 (INJECTION)	PENROSE SAND	1,553	P
HUMBLE STATE "A"	3	3	-	PENROSE SAND	1,395	F
L. J. MAY	4	4	-	PENROSE SAND	1,601	P
T. O. MAY	5	3	2 (INJECTION)	PENROSE SAND	4,168	P
SHELL STATE	1	1	-	PENROSE SAND	208	P
COMPANY TOTALS	36	29	7		12,291	
<u>AMERADA PETROLEUM CORP.</u>						
W. B. FERRELL	1	-	1 (TEMP. ABND.)	PENROSE SAND	0	-
E. WOOD	4	4	-	PENROSE SAND	2,376	P
COMPANY TOTALS	5	4	1		2,376	
<u>CARTER FOUNDATION PROD. CO.</u>						
ELLIOTT FEDERAL	2	2	-	PENROSE SAND	891	F
<u>CITIES SERVICE</u>						
ANNA WALDEN	3	3	-	PENROSE SAND	829	F
<u>CONTINENTAL OIL CO.</u>						
ELLIOTT "A" Nos. 21 & 22 FEDERAL	3	3	-	PENROSE SAND	541	P
<u>GULF OIL CORP.</u>						
A. L. CHRISTMAS	3	3	-	PENROSE SAND	698	P
R. E. COLE (NCT-C)						
STATE	1	1	-	PENROSE SAND	476	P
MANDA "A"	1	-	1 (TEMP. ABND)	PENROSE SAND	0	-
OLLIE BOYD	1	1	-	PENROSE SAND	885	P
COMPANY TOTALS	6	5	1		2,059	

EXHIBIT "D"
WELL STATUS BY LEASE

OPERATOR, LEASE AND NUMBER OF WELLS	ACTIVE PRODUCERS	INACTIVE	PRODUCING FROM	PROD. 7/1/61 TO 11/1/61	P (PUMPING) F (FLOWING)
<u>HUMBLE OIL & REFINING Co.</u>					
STATE "H" 6	4	1 (SHUT IN) 1 (INJECTION)	PENROSE SAND	1,808	P
<u>MOBIL OIL Co.</u>					
WILL CARY 3	3	-	PENROSE SAND	2,260	P
<u>OHIO OIL Co.</u>					
ANNA WALDEN 1	1	-	PENROSE SAND	216	P
<u>R. L. PARKER</u>					
STATE "A" 1	1	-	PENROSE SAND	407	P
<u>N. G. PENROSE</u>					
J. C. CLOWER STATE 1	1	-	PENROSE SAND	1,368	F
W. B. FERRELL 1	1	-	PENROSE SAND	383	P
COMPANY TOTALS 2	2	-		1,751	
<u>SKELLY OIL Co.</u>					
A. B. BAKER "A" 1	1	-	PENROSE SAND	333	P
J. V. VAKER 8	8	-	PENROSE SAND	2,103	P
COMPANY TOTALS 9	9	-		2,436	
<u>SINCLAIR OIL & GAS Co.</u>					
OLLIE BOYD 1	1	-	PENROSE SAND	807	P
A. L. CHRISTMAS 2	-	2 (SHUT IN)	PENROSE SAND	0	-
COMPANY TOTALS 3	1	2		807	
<u>T.P. COAL & OIL Co.</u>					
A. L. CHRISTMAS 1	1	-	PENROSE SAND	656	P
ELLIOTT "A" 27 FEDERAL 2	2	-	PENROSE SAND	343	I-F, I-P
WILL CARY 3	3	-	PENROSE SAND	797	F
COMPANY TOTALS 6	6	-		1,796	
<u>TIDEWATER OIL Co.</u>					
ANNA WALDEN 3	1	1 (SHUT IN) 1 (TEMP. ABND.)	PENROSE SAND PENROSE SAND	144	P
<u>SAMEDAN OIL CORPORATION</u>					
PARKS 1	1	-	PENROSE SAND	489	F
GRAND TOTALS 90	175	15 4 (INJ.) 8 (SHUT-IN) 3 (TEMP. ABND.)		31,101	

TABLE 1
 LANGLEIE-MATTIX UNIT - LEA COUNTY, NEW MEXICO
 WELL COMPLETION DATA
 PENROSE SAND

COMPANY & LEASE NAME	WELL No.	ELEV.	COMPLETION DATE	T.D.	PRODUCTION SIZE	STRING DEPTH	CEMENT	PENROSE SAND	CURRENT STATUS	STIMU-LATION	LINER INTERVAL
AMBASSADOR OIL CORP.											
M.W. COLL	1	3315	10-6-38	3685	7"	3356	150	sxs.	ACTIVE -P	SHOT	
M.W. COLL	2	3322	11-15-40	3645	7"	3349		3550-3660 3545-3688	ACTIVE -P	SHOT	
ELIZA GRAHAM	1	3326	4-30-38	3651	7"	3355	150	3540-3603	ACTIVE -P	SHOT	
LAURA MAY	1	3329	6-25-38	3639	6"	3360	150	3537-3624	ACTIVE -P	SHOT	
LAURA MAY	2	3322	8-18-38	3651	7	3347	150	3535-3621	ACTIVE -P	SHOT	
LAURA MAY	3	3324	12-20-38	3642	7	3347	150	3540-3642	ACTIVE -P	SHOT	
LAURA MAY	4	3326	4-30-38	3651	7	3355	150	3520-3537	ACTIVE -P	SHOT	
A. CHRISTMAS	1	3348	3-25-41	3688	7	3390		T/PAY 3537	ACTIVE -P	SHOT	
A. CHRISTMAS "A"	1	3347	5-29-39	3690	7	3412	150	3524-3610	ACTIVE -F	SHOT	
A. CHRISTMAS "A"	2	3347	7-27-39	3688	7	3422	200	3505-3545	ACTIVE -F	SHOT	
A. CHRISTMAS "A"	3	3348	9-30-39	3680	7	3419	200	3538-3661	ACTIVE -F	NONE	
A. CHRISTMAS "A"	4	3341	11-30-39	3678	7	3416	150	3572-3613	ACTIVE -F	SHOT	
A. CHRISTMAS "A"	5	3347	5-15-40	3680	7	3415		T/PAY 3545	ACTIVE -F	SHOT	
A. CHRISTMAS "A"	6	3352	5-26-40	3680	7	3454		T/PAY 3520	S.I.	SHOT	
A. CHRISTMAS "B"	1	3354	3-25-29	3681	6 5/8	3415	150	3516-3560	ACTIVE -F	SHOT	
HUMBLE STATE "A"	1	3354	3-12-40	3680	7	3397	250	3535-3678	ACTIVE -F	SHOT	
HUMBLE STATE "A"	2	3356	7-25-40	3681	7	3424		T/PAY 3557	ACTIVE -F	SHOT	
HUMBLE STATE "A"	3	3357	3-29-41	3690	7	3423		3605-3680	ACTIVE -F	SHOT	
SHELL STATE	1	3355	1-5-42	3848	7	3391		3545-3652	ACTIVE -P	SHOT	
GEO. GLIER, ET AL	1	3338	4-9-38	3679	7	3385	150	3550-3655	ACTIVE -P	SHOT	
GEO. GLIER, ET AL	2	3340	3-22-40	3702	7	3403	250	3565-3654	S.I.	SHOT	
GEO. GLIER, ET AL	3	3350	5-3-40	3688	7	3395	200	3598-3678	ACTIVE -P	SHOT	
ROSA GLIER	1	3351	2-12-40	3701	7	3407	250	3550-3650	S.I.	SHOT	
ROSA GLIER	2	3352	7-12-41	3681	7	3411		3545-3665	ACTIVE -P	SHOT	
ROSA GLIER "A"	1	3340	4-9-38	3680	7	3376	150	3528-3565	ACTIVE -F	SHOT-ACID	
ROSA GLIER "B"	1	3346	2-22-39	3691	7	3408	150	3545-3648	ACTIVE -F	SHOT.	
ROSA GLIER "B"	2	3347	10-9-39	3680	7	3432	150	3530-3657	S.I.	SHOT	
HUMBLE STATE *	1	3324	11-11-39	3709	7	3348	150	3555-3630	INJECTION	SHOT	
HUMBLE STATE	2	3309	12-23-39	3640	7	3350	125	3485-3640	ACTIVE -P	SHOT	
HUMBLE STATE	3	3306	3-24-40	3654	7	3343	100	3575-3648	ACTIVE -P	SHOT	
HUMBLE STATE	4	3311	5-8-40	3680	6 1/4	3354		3615-3670	ACTIVE -P	SHOT	

5 1/2" / 3662-3300 Loose
 SLOTTED

4 1/2 / 3287-3709 w/25 sxs.

COMPANY & LEASE NAME	WELL No.	ELEV.	COMPLETION DATE	T.D.	PRODUCTION SIZE	STRING DEPTH	CEMENT	PENROSE SAND	CURRENT STATUS	STIMU-LATION	LINER INTERVAL
AMBASSADOR OIL CORP.											
T. O. MAY*	1	3320	7-11-38	3700	7	3364	150 sxs.	3555-3592	INJECTION	SHOT	5 1/2"/3250-3565
T. O. MAY	2		12-14-38	3692	7	3350	150	3558-3682	ACTIVE -P	SHOT	
T. O. MAY	3	3330	9-9-39	3655	5 1/2	3342	125	3570-3650	ACTIVE -P	SHOT	
T. O. MAY	4	3319	2-12-40	3693	7	3348	275	3550-3573	INJECTION	SHOT	
T. O. MAY	5	3325	3-7-52	3688	5 1/2	3578	90	3578-3668	ACTIVE -P	SHOT-ACID	5 1/2"/3275-3693 CMTD.
AMERADA											
W. B. FERRELL	1		7-29-36	3705	7	3359	125	3359-3705	P P & A	SHOT-ACID	
W. B. FERRELL	2		6-26-38	3685	7	3375	250	3375-3685	T.A.	SHOT-ACID-FRAC	
E. Wood	1		2-16-37	3685	6 5/8	3380	250	3380-3685	ACTIVE -P	SHOT-ACID-FRAC	
E. Wood	2		8-17-37	3692	7	3383	250	3383-3692	ACTIVE -P	SHOT-ACID	
E. Wood	3		2-13-38	3688	7	3383	250	3383-3688	ACTIVE -P	ACID-FRAC	
E. Wood	4		5-26-38	3686	7	3388	250	3388-3685	ACTIVE -P	ACID-FRAC	
CARTER FOUND. PROD. Co.											
ELLIOTT FEDERAL	1	3372	1-1-37	3712	7	3400	250	3540-3712	ACTIVE -F	SHOT-FRAC	
ELLIOTT FEDERAL (1)	2	3373	2-9-37	3622	7	3382	200	3540-3600	ACTIVE -F	SHOT	
CITIES SERVICE											
ANNA WALDEN	1		12-24-36	3600	6 5/8	3383	100	3478-3600	ACTIVE -F	SHOT-FRAC	
ANNA WALDEN	2		6-25-37	3613	7	3381	150	3460-3610	ACTIVE -F	SHOT-FRAC	
ANNA WALDEN	3		4-6-57	3630	5 1/2	3630	300	3550-3612	ACTIVE -F	PERF.-FRAC	
CONTINENTAL OIL											
ELLIOTT A-21	1		10-16-36	3648	7	3377	200	3377-3648	ACTIVE -P	SHOT	
ELLIOTT A-21	2		5-26-37	3660	7	3363	1350	3363-3660	ACTIVE -P	SHOT	
ELLIOTT A-22	1		6-16-36	3592	7	3313	150	3313-3592	ACTIVE -P	SHOT	
GULF OIL											
OLLIE BOYD	1		5-24-37	6446	7	3280	160	3280-3681	ACTIVE -P		5 1/2"/3108-6446 CMTD. 425 sxs.
R. R. COLE (NCT-C)											
MANDA "A"	1		3-29-40	3700	6	3400	350	3400-3700	ACTIVE -P	FRAC	
A. L. CHRISTMAS	1		9-16-37	3670	7	3377	125	3377-3670	T.A.	SHOT-ACID	
A. L. CHRISTMAS	1		1-29-37	3682	7	3405	125	3405-3682	ACTIVE -P	SHOT	
A. L. CHRISTMAS	2		10-13-39	3690	7	3414	250	3414-3690	ACTIVE -P	SHOT	
A. L. CHRISTMAS	3		12-30-39	3675	7	3405	250	3405-3675	ACTIVE -P	SHOT	

COMPANY & LEASE NAME	WELL NO.	ELEV.	COMPLETION DATE	T.D.	SIZE	DEPTH	CEMENT	PENROSE SD.	CURRENT STATUS	STIMU-LATION	LINER INTERVAL
<u>HUMBLE OIL</u>											
STATE "H"	1		1-4-38	3670	7	3397	410 sxs.	3362-3670	ACTIVE-P	SHOT-FRAC	5 1/2" / 3362-3670 PERF.
STATE "H"	2		3-28-38	3660	7	3404	410	3404-3660	ACTIVE-P	SHOT	5 1/2" / 3376-3660 PERF.
STATE "H"	3		6-10-38	3664	7	3409	410	3409-3664	ACTIVE-P	SHOT	5 1/2" / 3387-3664 PERF.
STATE "H"	4		11-19-38	3660	7	3395	410	3395-3660	S.I.	SHOT	5 1/2" / 3381-3660 PERF.
STATE "H"	5		10-26-39	3665	7	3410	410	3410-3665	P P & A	SHOT	
STATE "H"	6		11-19-39	3665	7	3429	410	3429-3665	ACTIVE-P	SHOT	
STATE "H"	7		12-15-53	3693	4 1/2	3580	90	3580-3693	INJECTION	FRAC	5 1/2" / 3421-3665 SLOT.
<u>MOBIL</u>											
WILL CARY	1		6-25-36	3636	7	3350		3350-3636	ACTIVE-P	SHOT-ACID-FRAC	
WILL CARY	2		3-17-37	3620	7	3350	200	3350-3620	ACTIVE-P	SHOT-FRAC	
WILL CARY	3		7-4-37	3620	7	3350		3350-3620	ACTIVE-P	SHOT-ACID-FRAC	
<u>OHIO</u>											
ANNA WALDEN (2)	1		10-7-36	3818	6 5/8	3370	500	3370-3818	ACTIVE-P	SHOT	
<u>R. L. PARKER</u>											
STATE "A"	1		10-10-38	3665	7	3381	150	3510-3610	ACTIVE-P	SHOT-FRAC	
<u>SOHIO PETR. CO.</u>											
J. C. CLOVER STATE	1		12-13-59	3746	5 1/2	3746	200	3508-3589	ACTIVE-F	PERF.-FRAC	
W. B. FARRELL	1		9-29-38	3684	7	3379	175	3379-3636	ACTIVE-P	SHOT FRAC	
<u>SINCLAIR</u>											
OLLIE BOYD	1		5-13-36	3700	7	3245	50	3245-3653	ACTIVE-P	SHOT FRAC	
OLLIE BOYD	2		1-24-37	6460	7	3455	100	3455-3700	P P A	SHOT	5 1/2" / SURFACE TO T.D.
A. L. CHRISTMAS	1		4-25-36	3674	7	3350	50	3350-3674	S.I.	SHOT-FRAC	
A. L. CHRISTMAS	2		8-22-37	4073	7	3350	200	3350-3692	S.I.	SHOT	
A. L. CHRISTMAS	3		3-8-38	6797	7	3133	250	3133-3664	P P & A	SHOT	5 1/2" / 2992-6797 CMD.
<u>SKELLY</u>											
A. B. BAKER "A"	1		9-16-37	6487	7	3370	400	3370-3705	P P & A	ACID-FRAC	5" / 6417 CMD.
A. B. BAKER "A"	2		6-139	3665	5	3665		3400-3669	ACTIVE-P	FRAC	

COMPANY & LEASE NAME	WELL NO.	ELEV.	COMPLETION DATE	T.D.	PRODUCTION STRING SIZE	DEPTH	CEMENT	PENROSE SAND	CURRENT STATUS	STIMULATION	LINER INTERVAL
<u>SKELLY OIL CO.</u>											
J. V. BAKER	1		9-24-38	3695	7	3360	200	3621-3694	ACTIVE-P	SHOT	
J. V. BAKER	2		7-22-36	3714	8 5/8	1139	150	3504-3596	ACTIVE-P	SHOT-PERF.	5"/3679
J. V. BAKER	3		2-5-37	3600	7	3426	200	3426-3600	ACTIVE-P	SHOT-FRAC	
J. V. BAKER (32)	4		5-7-37	3679	7	3385	200	3525-3600	ACTIVE-P	SHOT-PERF.	5"/3610
J. V. BAKER	5		9-28-37	3620	7	3399	200	3524-3620	ACTIVE-P	SHOT	
J. V. BAKER	6		10-1-38	3660	7	3403	100	3403-3660	ACTIVE-P	SHOT-FRAC	
J. V. BAKER	7		30-30-39	3655	7	3410	200	3522-3655	ACTIVE-P	SHOT	
J. V. BAKER	8		6-15-39	3705	7	3449	75	3544-3695	ACTIVE-P	SHOT	5 1/2"/3396-3655 PERF. 5"/3420-3705
<u>TIDEWATER</u>											
ANNA WALDEN	1		7-16-36	3620	6 5/8	3403	150	3490-3599	T.A.	SHOT	
ANNA WALDEN (47)	2		3-26-37	3610	6 5/8	3400	100	3518-3610	ACTIVE-P	SHOT	
ANNA WALDEN	3		7-14-37	3615	7	3376	100	3530-3615	S.I.	SHOT	
<u>T.P. COAL & OIL</u>											
A. L. CHRISTMAS	1		8-1-38	3690	6 5/8	3393	150	3393-3690	ACTIVE-P	FRAC	4 1/2"/3364-3689
ELLIOTT "A"-27	1		8-27-37	3665	7	3367	150	3378-3665	ACTIVE-F	SHOT	
ELLIOTT "A"-27	2		6-25-38	3665	7	3375	150	3386-3665	ACTIVE-P		
<u>SAMEDAN OIL CORPORATION</u>											
PARKS	1		7-7-36	3620	7	3254	150	3502-3623	ACTIVE-F	SHOT	5"/3202-3454

- (1) 3 STRINGS OF TOLLS IN HOLE
 (2) FISH IN HOLE (BIT, DRILL COLLARS, ETC.)
 (3) FISH IN HOLE (SET OF CABLE TOOLS)
 (4) FISH IN HOLE (SAND PUMP)
 (*) INJECTION WELL IN PILOT AREA

(1) 3
 (2) 2
 (3) 2
 (4) 1
 (*) 1

AMBASSADOR OIL CORPORATION
LEASE: T. O. MAY WELL No. 5

TABLE 2
EARLOUGHER ENGINEERING
SUMMARY OF CORE ANALYSES DATA

FORMATION	DEPTH FEET		NET FEET OF SAND	AVG. POR.	AVG. CORE SATURATION		CORE OIL CONTENT		PERMEABILITY		FLOOD POTEN- TIAL SATURA- TION	RESIDUAL OIL CONTENT	OIL REC. BBL./ACRE			
	FROM	TO			OIL	WATER	AVG. B/A FT.	TOTAL B/AC.	AVG. MD.	CAPACITY FT. X MD.						
PENROSE (QUEEN)	3577.8	3579.5	1.7	12.5	16	57	153	260	0	0	17	83	165	280	0	100
PENROSE (QUEEN)	3579.5	3586.5	7.0	15.1	17	53	194	1360	7.0	49	16	84	188	1320	40	220
PENROSE (QUEEN)	3587.2	3595.0	7.8	10.4	18	57	146	1140	0.5	3.9	18	81	146	1140	0	100
PENROSE (QUEEN)	3630.8	3643.9	10.3	13.2	21	48	211	2170	1.7	17.0	20	76	205	2110	60	430
PENROSE (QUEEN)	3659.7	3663.9	4.1	17.8	14	49	195	800	17.0	71.0	14	73	195	800	0	60
PENROSE (QUEEN)	3676.9	3679.8	2.9	11.1	16	60	141	410	1.0	2.8	20	80	172	500	0	50
PENROSE (QUEEN)	3577.8	3679.8	33.8	13.	18	53	182	6140	4.3	144.0	18	79	182	6150	0	960

OIL CONSERVATION COMMISSION
REG. NO. 140

NOV 11 1956
OIL CONSERVATION COMMISSION

NOV 11 1956
REG. NO. 5 11

UNIT AGREEMENT
LANGLIE-MATTIX PENROSE SAND UNIT
LEA COUNTY, NEW MEXICO

BEFORE EXAMINER UTZ	
OIL CONSERVATION COMMISSION	
EXHIBIT NO. <u>E</u>	CASE NO. <u>2954</u>
<i>Utz 2954</i>	

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EXHIBIT "A" (Map of Unit Area)

EXHIBIT "B" (Schedule of Ownership)

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
LANGLIE-MATTIX PENROSE SAND UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the _____ day of _____ 1963, 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:

THAT WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the Unit 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 (Sec. 3, Chap. 88, Laws 1943 as amended by Sec. 1 of Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 39, N.M.S. 1953 anno) to consent to or approve this Agreement on behalf of the State of New Mexico, in so far 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 (Sec. 3, Chap. 88, Laws of 1943, as amended by Sec. 1, Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 41, N.M.S. 1953 anno) 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 term of such unitized development and operation of State lands; and,

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chap. 72, Laws of 1935, as amended by Chap. 193, Laws of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949) to approve this Agreement, and the conservation provisions hereof; and,

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

WHEREAS, the parties hereto hold sufficient interests in the Langlie-Mattix Penrose Sand Unit covering the land hereinafter described to give reasonably effective control of operation therein; and,

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the area subject to this Agreement under the terms, conditions and limitations herein set forth.

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

SECTION 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 and 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 in which the non-Federal land is located, are hereby accepted and made a part of this Agreement.

SECTION 2. UNIT AREA AND DEFINITIONS For the purpose of this Agreement, the following terms and expressions as used herein shall mean.

(a) "Unit Area" is defined as those lands specified on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area; the lands specified in said Exhibit "A" are described as:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

LEA COUNTY, NEW MEXICO

Township 22 South, Range 37 East

Sec. 14: SW/4 SW/4
Sec. 20: SE/4 SE/4
Sec. 21: All
Sec. 22: All
Sec. 23: W/2 NW/4; SW/4 SW/4
Sec. 26: W/2 W/2
Sec. 27: All

Sec. 28: All
Sec. 29: E/2 NE/4; NE/4 SE/4
Sec. 32: E/2 NE/4
Sec. 33: N/2
Sec. 34: N/2; SE/4

and containing 3,920 acres, more or less.

(b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(c) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.

(d) "Director" is defined as the Director of the United States Geological Survey.

(e) "Secretary" is defined as the Secretary of the Interior of the United States of America.

(f) "Department" is defined as the Department of the Interior of the United States of America.

(g) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey.

(h) "Langlie-Mattix Zone" is defined as and shall mean that underground reservoir, regardless of depth or thickness, established by the Commission as the Langlie-Mattix oil pool and defined as the lower 100 feet throughout the entire Unit Area of the Seven Rivers formation and all of the Queen formation. The Langlie-Mattix Zone is found between the subsurface depths of 3295 feet and 3664 feet in Sinclair Oil & Gas Company Christmas No. 3, located 330 FNL and 2310' FEL of Section 28, T22S, R37E, Lea County, New Mexico, Schlumberger Gamma Ray-Neutron log dated June 19, 1957.

(i) "Unitized Formation" is defined as the Langlie-Mattix Zone underlying the lands effectively committed to this Agreement.

(j) "Unitized Substances" means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

(k) "Ultimate Primary Oil Recovery" is 6,363,944 barrels of oil and is defined as that amount of Unitized Substances which will be produced from the Unitized Formation in the Unit Area, consisting of 6,304,096 barrels of primary oil recovered to July 1, 1961, plus 59,848 barrels of remaining primary oil to be recovered as of that date.

(l) "Working Interest" is defined as the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, or otherwise held.

(m) "Working Interest Owner" is defined as and shall mean any party owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, 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 and producing the Unitized Substance from the Unitized Formation and operating thereof hereunder.

(n) "Royalty Interest" or "Royalty" is defined as an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(o) "Royalty Owner" is defined as and shall mean the owner of a Royalty Interest.

(p) "Unit Operating Agreement" is defined as and shall mean any agreement or agreements (whether one or more) entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 10 (Accounting Provisions and Unit Operating Agreement), *infra*, and shall be styled "Unit Operating Agreement, Langlie-Mattix Penrose Sand Unit, Lea County, New Mexico."

(q) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells on the unitized land.

(r) "Unit Operator" means the Working Interest Owner designated by Working Interest Owners under the Unit Operating Agreement to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.

(s) "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 9 (Successor Unit Operator) hereof.

(t) "Tract" means each parcel of land described as such and given a Tract number in Exhibit "A".

(u) "Tract Participation" means the percentage shown on Exhibit "B" for allocating Unitized Substances to a Tract under this agreement.

(v) "Unit Participation" of each Working Interest Owner means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

SECTION 3. EXHIBITS. Exhibit "A" attached hereto and made a part hereof is a map showing, to the extent known to the Unit Operator, the Unit Area and the boundaries and identity of tracts and leases in said Unit Area. Exhibit "B" attached hereto and made a part hereof 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, kind of ownership of oil and gas interests, and the percentage of participation each tract has 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 render such revision necessary, and at least two copies of such revision shall be filed with the Commissioner, and not less than six copies thereof shall be filed with the Supervisor.

SECTION 4. EXPANSION. 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 Working Interest Owner or owners of a tract or tracts desiring to bring such tract or tracts into this Unit, shall file an application therefor with the 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 each such tract, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if 90 per cent of the Working Interest Owners (on the basis of unit participation) have agreed to such tract or tracts being brought into the Unit, then Unit Operator shall:

(1) After preliminary concurrence by the Director, 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 Tract Participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice; and,

(2) Deliver copies of said notice to the Commissioner, the Supervisor, each Working Interest Owner, lessee and lessor whose interests are affected, (mailing copy of such notice to the last known address of each such Owner) and to the lessee and lessor whose interests are proposed to be committed, advising such parties who are already committed that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion and soliciting joinders from the owners of interests in the lands to be admitted; and,

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above and provided that objections of not more than ten per cent of the Working Interest Owners, based on percentage of participation, have been filed thereto, with the Commissioner, Director and the Commission the following: (a) Comprehensive statement as to mailing said notice of expansion; (b) An application for such expansion in sufficient number for appropriate approval and distribution; and (c) An instrument containing the appropriate joinders in compliance with the participation requirements of Section 14 (Tracts Qualified for Unit Participation) and Section 31 (Nonjoinder and Subsequent Joinder), infra;

Provided, however, if a dissenting Working Interest Owner owns more than a ten per cent (10%) Unit Participation, it must be joined in such dissent by at least one other Working Interest Owner.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner and the Director and the Commission, become effective as of the date prescribed in the notice thereof or on such other more appropriate date as set by the Commissioner and the Director and the Commission in the order or instrument approving such expansion. The revised Tract Participation of the respective tracts included within the Unit Area prior to such enlargement shall remain in the same ratio one to another.

SECTION 5. PERSONAL PROPERTY EXCEPTED. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 6. UNITIZED LAND AND UNITIZED SUBSTANCES. All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons in all of the hereinabove-described and subsequently admitted land effectively committed to this Agreement, are herein called Unitized Substances, insofar only as the same may be found in the Langlie-Mattix Zone, together with the pertinent surface rights of egress and ingress, are unitized under the terms of this Agreement and said land shall constitute land referred to herein as "Unitized Land" or "Land Subject to this Agreement."

SECTION 7. UNIT OPERATOR. Ambassador Oil Corporation, a Delaware corporation, is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, and the term "Working Interest owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 8. 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 written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Commissioner and the Supervisor, 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 Unit Operator, upon default or failure in the performance of its duties or obligations hereunder, may be subject to removal by 75 per cent (75%) of the committed Working Interest Owners (on the basis of Unit Participation) exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and the Supervisor.

In all such instances of effective resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the 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, books, and records, materials, appurtenances and any other assets, used in conducting the Unit Operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operations of the Unit Area) to the new duly qualified successor Unit operator or to the Unit Manager if no such new Unit Operator is named, 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. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder for any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 9. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender 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 vote of the Working Interest Owners (on the basis of Unit Participation), provided no Working Interest Owner who has been Unit Operator and 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 filed with the Commissioner and the Supervisor. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Commissioner and the Director, at their election, may declare this Agreement terminated.

SECTION 10. 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 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 any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner and three true copies thereof shall be filed with the Supervisor, prior to approval of this Agreement.

SECTION 11. 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.

SECTION 12. 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 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 parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Supervisor, 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. The parties hereto hereby grant Unit Operator the right insofar as such rights are granted by the individual leases to use brine or water (or both) from any formation underlying the Unit Area for injection purposes. After commencement of secondary operations, Unit Operator shall furnish the Commissioner and the Supervisor monthly, injection and production reports for each well in the Unit. The Working Interest Owners, the Supervisor, and the Commissioner, shall be furnished periodical reports on the progress of the plan of operation and any revision or changes thereto; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Supervisor and the Commissioner.

The initial plan of operation shall be filed with the Supervisor and 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 Supervisor and 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.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence secondary operations on the Unit Area within six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and the Supervisor. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 13. TRACT PARTICIPATION. In Exhibit "B" attached hereto, there are listed and numbered the various tracts within the Unit Area and set forth opposite each tract is a figure which represents the Tract Participation allocated to each tract in the Unit Area calculated on 100 per cent commitment. The Tract Participation of each tract was determined as follows:

Tract 100% Tract Ultimate Primary Oil Recovery
Participation = 100% Unit Area Ultimate Primary Oil Recovery

However, if the Unit Agreement is approved with less than 100 per cent commitment, said Tract Participation shall be revised pursuant to Section 14 (Tracts Qualified for Unit Participation) to fit the commitment status as of the effective date hereof, and thereafter, as needed pursuant to Section 15 (Allocation of Unitized Substances).

SECTION 14. TRACTS QUALIFIED FOR UNIT PARTICIPATION. On and after the effective date hereof, the tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances therefrom shall be those tracts within the Unit Area and more particularly described in said Exhibit "B" that are qualified as follows:

(a) Each tract as to which Working Interest Owners owning 100% of the Working Interest therein have become parties hereto and as to which Royalty Owners owning 75% or more of the Royalty Interest therein have become parties hereto.

(b) Each tract as to which Working Interest Owners owning 100% of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than 75% of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such tract have joined in a request for the qualification and participation of such tract, and

(ii) 80% of the combined voting interests of Working Interest Owners in all tracts meeting the requirements of Section 14(a) hereof have approved the qualification and participation of such tract.

For the purposes of this Section 14(b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in per cent) which its aggregate tract participation in all tracts qualifying under Section 14(a) bears to the total tract participation of all Working Interest Owners in all tracts qualifying under Section 14(a).

(c) Each tract as to which Working Interest Owners owning less than 100% of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

(i) The Working Interest Owner operating any such tract and all of the other Working Interest Owners in such tract who have become parties hereto have joined in a request for qualification and participation of such tract and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless all other parties hereto, their successors and assigns, against all claims and demands which may be made by the owners of working interests in such tract who are not parties hereto and which arise out of the qualification and participation of such tract, and

(ii) 80% of the combined voting interest of Working Interest owners in all tracts meeting the requirements of Section 14(a) and 14(b) have voted in favor of the qualification and participation of such tract and acceptance of the indemnity agreement.

For the purpose of this Section 14(c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in per cent) which its aggregate tract participation in all tracts qualifying under Section 14(a) and 14(b) bears

to the total tract participation of all Working Interest Owners in all tracts qualifying under Section 14(a) and 14(b). Upon the qualification of such a tract, the share of the tract participation that would have been attributed to the nonsubscribing owners of the Working Interest in such tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such tract who have become parties to such agreements, in proportion to their respective Working Interests in the tract.

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 and the Director, or as soon thereafter as practicable, file a schedule of those tracts which have been committed and made subject to this agreement and are entitled to participate in Unitized Substances. Said schedule shall set forth opposite each such committed tract the lease number or assignment number, the owner of record of the lease, and the Tract Participation of such tract which shall be computed according to the participation formula set out in Section 13 (Tract Participation) above. This schedule of participation shall be a part of Exhibit "B" and, upon approval thereof by the Commissioner, and the Supervisor, shall become a part of this agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Commissioner and the Supervisor or the Director.

If, after the effective date of this Agreement, there is any tract or tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any tract or tracts within the Unit Area not committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Section 31 (Non-joinder and Subsequent Joinder), or if any tract is excluded herefrom as provided for in Section 30 (Loss of Title), the schedule or participation as shown in the current Exhibit "B", shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Commissioner, the Supervisor, and the Director to show the new tract participation of all the then effectively committed tracts; and the revised schedule, upon approval by the Commissioner and the Supervisor or the Director, shall govern all the allocation of production from and after the effective date thereof until the effective date of a new schedule so approved.

SECTION 15. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved shall be allocated to the qualified Tracts in accordance with the respective Tract Participations effective during the period that the Unitized

Substances were produced. The amount of Unitized Substances allocated to each Tract, regardless of whether it is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes 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 Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal effect. No tract committed to this agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances, and nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the joinder of any tract. If any Oil and Gas Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

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. Such parties shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the receiving party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of the Unitized Substances.

If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share; provided that all contracts of sale by

Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto. 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 ninety (90) 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 Royalty on the lease or leases and tracts contributed by it and received into the Unit.

SECTION 16. ROYALTY SETTLEMENT. The State of New Mexico and the United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the Unitized Substances produced from any tract unitized hereunder, shall continue to be entitled to such 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, 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 Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation, for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan approved pursuant to Section 12 (Plan of Operations), a like amount of gas, less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation. Royalty free as to dry gas but not as to the products extracted therefrom; provided 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 as of the effective date of termination of the Unit Agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Supervisor and 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 Supervisor and the Commissioner.

All Royalty due the State of New Mexico and the United States of America 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.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulations; 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 Unitized Land were a single consolidated lease.

Each Royalty Owner (other than the State of New Mexico and the United States of America) 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 or otherwise 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.

SECTION 17. 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. Rental or minimum royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 18. 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 Federal and State laws and regulations.

SECTION 19. 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.

SECTION 20. 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 on 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 and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do 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.

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 lands shall 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 and the Supervisor or their duly authorized representatives, shall be deemed to constitute such sus-

pension pursuant to such direction or consent as to each and every tract of unitized lands.

(d) Each lease, sublease, 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 land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately 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.

(h) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Sec. 17(j) of said Act of February 25, 1920, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any {Federal} lease heretofore or hereafter committed to any such plan (unit) 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."

SECTION 21. CORRECTION OF ERRORS. It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners, the Commissioner, and the Supervisor.

SECTION 22. 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, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto 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, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 23. 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. of the first day of the 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 ninety per cent (90%), 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 said Unit Area; and,

(b) The approval of this Agreement by the Commissioner, the Secretary or his duly authorized representative, and the Commission; and,

(c) The filing of at least one counterpart of this Agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and provided further, that if (a), (b) and (c) above are not accomplished on or before January 1, 1964, this Agreement shall ipso facto expire on said date (hereinafter called "expiration 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 eighty-five per cent (85%), and the Working Interest Owners owning a combined unit participation of at least eighty-five per cent (85%) committed to this Agreement have decided to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a), (b) and (c) are not accomplished on or before said extended expiration date, this Agreement shall ipso facto expire on said extended expiration 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 as determined from Exhibit "C" attached to the Unit Operating Agreement.

Unit Operator shall, within thirty (30) days after the effective date of this agreement, file for record in the 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 operations) 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 with the approval of the Commissioner and the Director by Working Interest Owners owning ninety per cent (90%) of unit participation whenever such Working Interest Owners determine that Unit operations are no longer profitable, feasible, or in the interest of conservation. Notice of any such termination 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.

SECTION 24. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION: All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately owned lands subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

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

SECTION 25. NONDISCRIMINATION. In connection with the performance of work under this Agreement, the Unit Operator agrees to comply with all of the provisions of Section 301 (1) to (7) inclusive, of Executive Order 10925 (26 F.R. 1977), which are hereby incorporated by reference in this Agreement.

SECTION 26. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner, the Department, and the Commission, and to appeal from any order issued under the rules and regulations of the Commissioner, the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner, the Department, or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings. This Agreement shall not be construed to provide that any party is obligated to represent any other party hereto before the Federal Power Commission.

SECTION 27. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid 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 or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 28. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or rules 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.

SECTION 29. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue secondary recovery operations 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 agency, 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.

SECTION 30. LOSS OF TITLE. In the event title to any tract of unitized land shall fail so as to render the tract inoperable under this Agreement 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 re-adjustment 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 interest subject thereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State or Federal land or lease, no payments of funds due the State of New Mexico or the United States of America shall be withheld, but such funds shall be deposited as directed by the Commissioner or the Supervisor (as the case may be), 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.

SECTION 31. NONJOINDER AND SUBSEQUENT JOINDER. Any oil or gas interest in the lands in 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 by a Working Interest Owner shall be upon such terms as may be negotiated with the Working Interest Owners and the owner of such interest. 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 which may accrue hereunder in behalf of such non-working interest.

Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 A.M. as of the first day of the month following the filing with the Commissioner and the Supervisor of duly executed

counterparts of any and all documents necessary to establish effective commitment of any tract or interest of this Agreement, unless objection to such joinder by the Commissioner or the Director is duly made within sixty (60) days after such filing.

SECTION 32. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and 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.

SECTION 33. 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 unitized land; 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 expressly agreed hereby 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 said Unitized Substances. No such taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 34. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or 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 Agreement 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.

SECTION 35. RELATIONSHIP OF PARTIES. The duties, obligations, and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 36. BORDER AGREEMENTS. Subject to the approval of the Supervisor and the Commissioner, the unit operator, with concurrence of sixty five per cent (65%) of the Working Interest Owners, based on percentage of participation, 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.

SECTION 37. LIMITATION OF APPROVALS. Notwithstanding anything herein contained to the contrary, if no Federal lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Department, the Secretary, the Director, or the Supervisor, and it shall not be necessary to file any instrument hereunder with said officers or agencies unless and until Federal lands are so committed to this Agreement; likewise, if no State lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Commissioner, and it shall not be necessary to file any instrument hereunder with said officer unless and until State lands are so committed to this Agreement; likewise, if no fee lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Commission, and it shall not be necessary to file any instrument hereunder with said office unless and until fee lands are so committed to this Agreement.

SECTION 38. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipe line connections, as of 7:00 A.M. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was pro-

duced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provisions of the applicable lease or other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after effective date hereof.

If, as of the effective date hereof, any Tract is overproduced with respect to the allowable of the wells on that Tract and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded as a part of the Unitized Substances produced after the effective date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

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

ATTEST:

On 4-1-63
J. M. [illegible]
Secretary

By _____
Secretary

Date: 4-1-63

AMBASSADOR OIL CORPORATION

By _____
Vice President

UNIT OPERATOR
AND WORKING INTEREST OWNER

THE STATE OF TEXAS)

COUNTY OF TARRANT)

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this first day of April, 1963, personally appeared KENNETH L. SMITH, to me known to be the identical person who subscribed the name of the maker to the within and foregoing instrument as its Vice President, and acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

IN TESTIMONY WHEREOF I have hereunto set my hand and official seal the day and year last above written.

N/S

My Commission Expires:
June 1, 1963.

S/RUTH A. STEWART
Notary Public in and for
Tarrant County, Texas

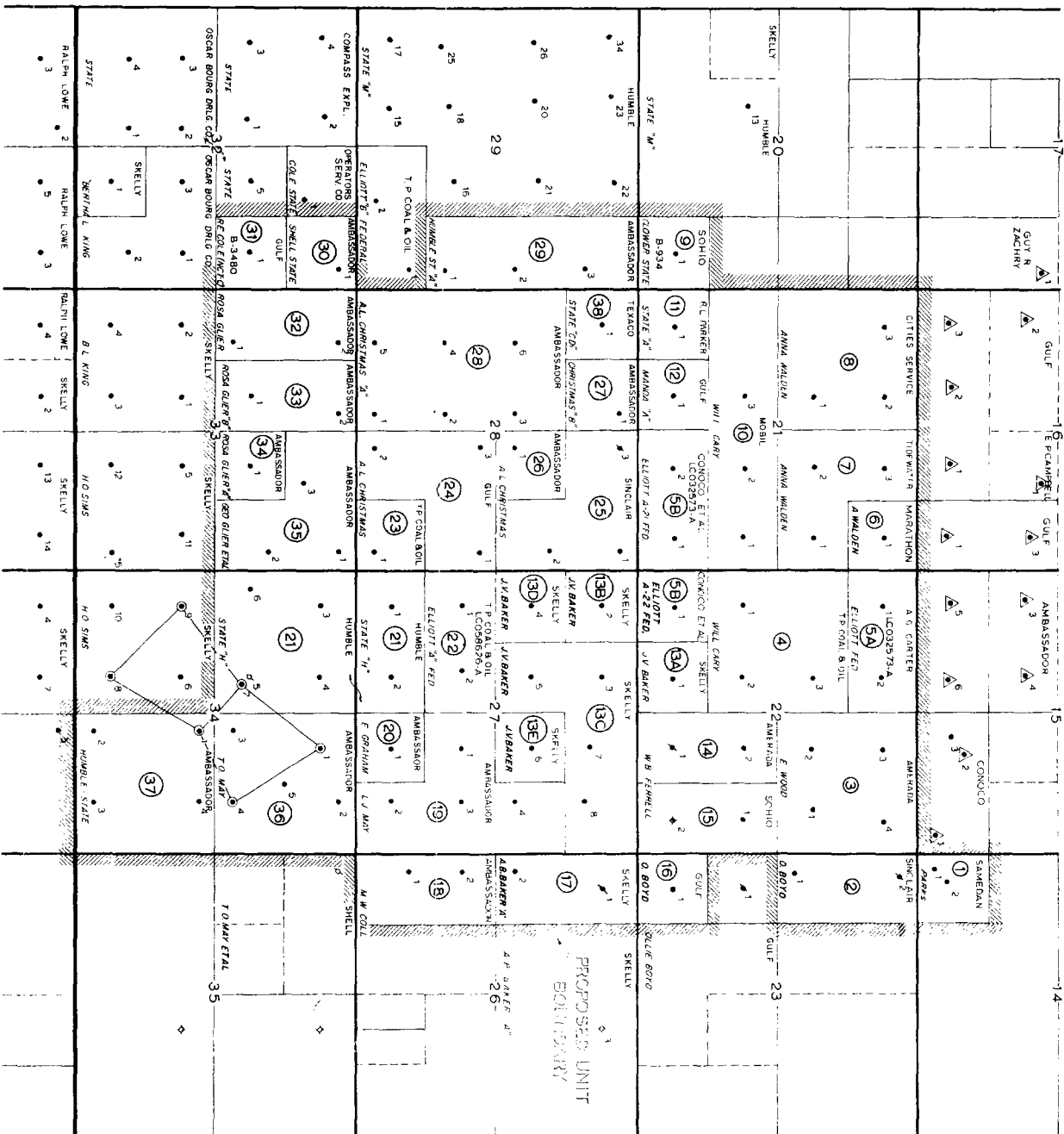


EXHIBIT 'A'

AMBASSADOR OIL CORPORATION

LANGLIFF-MATIX PENROSE SAND UNIT

LEA CO. NEW MEXICO

FLOOD NO 36

• PENROSE PROD
• PENROSE INJ
• GRAYBURG PROD

EXHIBIT "B"

Revised March 20, 1963

LANGFIE-MATTIX PENROSE SAND UNIT

Lea County, New Mexico

TRACT NO.	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT			
T-22-S, R-3-E FEDERAL LANDS											
5-A	N/2 NW/4, Sec. 22	80	LC-032573-A Dated 8-1-56	12 1/2% 25%	E. M. Elliott & Marion M. Leonard	Sunshine Royalty Mable F. Leonard Trustees of Harry M. Leonard Estate Midwest Oil Corp. First National Bank of Nevada, Trustee under the Will of Allie M. Lee, Dec'd.	- 0.83% - 0.835% - 0.835% - 1.67% - 0.83%	Carter Foundation Production Co. - 100%	2.025285		
5-B	S/2 SE/4, Sec. 21 and SW/4 SW/4, Sec. 22	120	LC-032573-A Dated 8-1-56	12 1/2% 25%	E. M. Elliott	15 or More Barrels Per Well Per Day Sunshine Royalty Est. of Harry Leonard, Dec'd. First National Bank of Nevada, Exec. of Estate of Allie M. Lee, Dec'd. Midwest Oil Corp. Mable F. Leonard	- 1/6 of 7.5% - 1/6 of 7.5% - 1/3 of 7.5% - 1/6 of 7.5%	Continental Oil - 25% The Atlantic Refining Co. - 25% Pan American Petroleum Corp. - 25% Standard Oil Co. of Texas, a Div. of California Oil Company - 25%	3.123268		
15 or Less Barrels Per Well Per Day Sunshine Royalty Est. of Harry Leonard, Dec'd. First National Bank of Nevada, Exec. of Est. of Allie M. Lee, Dec'd. Midwest Oil Corp. Mable F. Leonard									- 1/6 of 5.0% - 1/6 of 5.0% - 1/3 of 5.0% - 1/6 of 5.0%		

EXHIBIT "B" (Cont.)

TRACT NO.	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
22	N/2 SW/4, Sec. 27	80	1C-058626-A	12½%-25%	TPC&O	Sunshine Royalty - 1.25% Harry Leonard - 2.50% First Nat'l. Bank, Nevada - 1.25% Saltmount Oil Co. - 2.50%	TPC&O - 5/8 Sohio Petroleum Co. - ¼ leum Co. - ¼ Broseco Corp. - 95% X 1/8 John B. Rich - 5% X 1/8	2.442715
9	SE/4 SE/4, Sec. 20	40	B-934 6-6-32	1/8	Humble O&R Co.	Humble - 1/16 X 8/8 W. B. Grace & R. Benton Ross, Trustees - 1/16 X 8/8	Sohio Petroleum Co. - ¼ Ambassador Oil Corp. - ¼ Frankfort Oil - ¼ Broseco Corp. - 23.75% John B. Rich - 1.25% (to 4,000 ft.)	0.234257
11	SW/4 SW/4, Sec. 21	40	B-148 8-14-36	1/8	Parker Drilling Co.	The Texas Co. - 1/8 under 50 BOPD 3/32 over 50 BOPD	Robert L. Parker - 100%	1.070138
21	S/2 SW/4, Sec. 27 & NW/4, Sec. 34	240	B-934 6-6-32	1/8	Humble O&R Co.	None	Humble O&R Co. - 100%	6.827544
29	E/2 NE/4, NE/4 SE/4, Sec. 29	120	B-934-8 6-6-32	1/8	Humble O&R Co.	Humble O&R - 1/16	Ambassador Oil Corp. - ½ Frankfort Oil (to 4,000 ft.) - ½	4.234560
30	NE/4 NE/4, Sec. 32	40	B-1167 9-6-32	1/8	Shell Oil Co.	(1) Shell Oil 1/16 if 1 - 40 bbls. per day 1/8 if 40 - 150 bbls. per day 1/4 if 150 bbls. or more per day	Ambassador Oil Corp. - ½ Frankfort Oil (to 4,000 ft.,) - ½	0.405802

EXHIBIT "B" (Cont.)

TRACT NO.	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT	
30 (Cont.)						(2) Gulf Coast Western Oil Co. - Prod. Pay. of 1,132 bbls. out of 4.6875% of prod.			
						(3) Same as (3) under Tract #18.			
31	SE/4 NE/4, Sec. 32	40	B-3480 12-13-34	1/8	Gulf Oil	None	Gulf Oil	100% 0.762829	
37	SE/4, Sec. 34	160	B-934-19 6-6-32	1/8	Humble O&R	(1) Humble - 1/8 X 7/8 of prod. (2) Gulf Coast Western Oil Co. - Prod. Pay. of 7,818 bbls. out of 4.6875% of prod. (3) Same as (3) under Tract #18.	Ambassador Oil - 1/2 Frankfort Oil - 1/2 (to 4,000 ft.)	2.706969	
38	NW/4 NW/4, Sec. 28	40	B-148-6 8-14-31	1/8	Texaco	None	Texaco	100% 0.108706	
T-22-S, R-37-E FEE LANDS									
1	SW/4 SW/4, Sec. 14	40	Fee Land - 12-23-35	1/8	Samedan Oil Corp. - Sam Noble C.C.Forbes, Trustee of Nora Shaffer Trust #2 C.C.Forbes, Trustee of Nora Shaffer Trust #3 Michael F. Cusack - John P. Cusack, Jr. - J. P. Cusack -	74.25% - 0.25% - 0.25% - 0.25% 4.00% 4.00% 17.00%	None	Samedan Oil Corp. - Sam Noble C.C.Forbes, Trustee of Nora Shaffer Trust #2 C.C.Forbes, Trustee of Nora Shaffer Trust #3 Michael F. Cusack - John P. Cusack, Jr. - J. P. Cusack -	74.25% - 0.25% - 0.25% - 0.25% 4.00% 4.00% 17.00%
2	W/2 NW/4, Sec. 23	80	Fee Land - 5-30-26	1/8	Sinclair	None	Sinclair	100% 2.295275	

EXHIBIT "B" (Cont.)

TRACT NO.	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST		PER CENT PARTICIPATION OF TRACT IN UNIT.
						OWNER AND AMOUNT	OWNER AND AMOUNT			
3	NE/4, Sec. 22	160	Fee Land - 3-15-27	1/8	F.S. Blackmar	Humble O&R -	6.25%	Amerada	- 100%	5.373633
4	S/2 NW/4 & N/2 SW/4, Sec. 22	160	Fee Land - 10-9-26	1/8	Texas Pacific C&O - 1/3 A.H.Rowan & Estate of C.L.Rowan - 1/3 Sohio Petroleum Company - 2/9 Broseco Corp. - 95% X 1/9 John B. Rich - 5% X 1/9	None	Texas Pacific C&O - 1/3 A.H.Rowan & Estate of C.L.Rowan - 1/3 Sohio Petroleum Co.- 2/9 Broseco Corp. - 95% X 1/9 John B. Rich - 5% X 1/9			4.629504
6	NE/4 NE/4, Sec. 21	40	Fee Land - 9-20-28	1/8	Marathon Oil Co.	None	Marathon Oil Co. - 100%			0.972840
7	NW/4 NE/4 & S/2 NE/4, Sec. 21	120	Fee Land - 10-5-26	1/8	Tidewater	None	Tidewater Oil Co. - 100%			3.083088
8	NW/4, Sec. 21	160	Fee Land - 10-5-26	1/8	Cities Service	None	Cities Service Petroleum Co. - 100%			2.930762
10	N/2 S/2, Sec. 21	160	Fee Land - 8-18-34	1/8	Magnolia Pet. Co.	None	Socony Mobil Oil Co., Inc. - 100%			4.778750
12	SE/4 SW/4, Sec. 21	40	Fee Land - 4-20-28	1/8	Gulf Oil Corp.	None	Gulf Oil Corp. - 100%			0.824440
13-A	SE/4 SW/4, Sec. 22	40	Fee Land - 4-1-26	1/8	Skelly Oil Co.	None	Skelly Oil Co. - 100%			1.635966
13-B	NW/4 NW/4, Sec. 27	40	Fee Land - 4-1-26	1/8	Skelly Oil Co.	None	Skelly Oil Co. - 100%			2.092194
13-C	NE/4 NW/4; N/2 NE/4; & SE/4 NW/4, Sec. 27	160	Fee Land - 4-1-26	1/8	Skelly Oil Co.	None	Skelly Oil Co. - 100%			5.897396

EXHIBIT "B" (Cont.)

TRACT NO.	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
13-D	SW/4 NW/4, Sec. 27	40	Fee Land - 4-1-26	1/8	Skelly Oil Co.	None	Skelly Oil Co. - 100%	1.203736
13-E	SW/4 NE/4, Sec. 27	40	Fee Land - 4-1-26	1/8	Skelly Oil Co.	None	Skelly Oil Co. - 100%	1.373739
14	W/2 SE/4, Sec. 22	80	Fee Land - 3-15-27	1/8	F.S.Blackmar	Humble Oil & Refining Co. - 6.25%	Amerada Pet.Corp. - 100%	0.894571
15	E/2 SE/4, Sec. 22	80	Fee Land -	1/8	F.S.Blackmar	Humble Oil & Refining Co. - 6.25%	Sohio Pet. Co. - 2/3 Broseco Corp. - 95% of 1/3 John B. Rich - 5% of 1/3 (to 4,000 ft.)	0.813363
16	SW/4 SW/4, Sec. 23	40	Fee Land - 5-14-27	1/8	Gulf Oil Corp.	None	Gulf Oil Corp. - 100%	0.963333
17	W/2 NW/4, Sec. 26	80	Fee Land - 4-19-35	1/8	Skelly Oil Co.	None	Skelly Oil Co. - 100%	1.960042
18	W/2 SW/4, Sec. 26	80	Fee Land - 9-20-28	1/8	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil - $\frac{1}{2}$	(1) Tidewater Oil Co. - 1/8 of 7/8 on 50 bbls. or over per well per day and 1/16 of 7/8 on less than 50 bbls. per well per day. (2) Gulf Coast Western Oil Co. - Prod. Pay. of 5,671 bbls. out of 4.6875% of prod. (3) Fidelity Nat'l. Bank & Trust Co. of Okla., as Trustee under Trust Indenture -	Ambassador Oil Corp. - 50% Frankfort Oil - 50% (to 4,000 ft.)	1.978804

EXHIBIT "B" (Cont.)

TRACT NO.	NUMBER OF ACRES	SERIAL NO. & LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNERS AND AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
19	SE/4 SE/4, 100 N/2 SE/4; SE/4 NE/4, Sec. 27	Fee Land - 7-25-30	1/8	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil - $\frac{1}{2}$	(1) Gulf Oil Corp. - 1/8 (2) Gulf Coast Western Oil Co. - Prod. Pay. of 16,592 bbls. out of 4.6875% of prod. (3) Same as (3) under Tract #18.	Ambassador Oil Corp. - 50% Frankfort Oil (to 4,000 ft.) - 50%	5.732923
20	SW/4 SE/4, Sec. 27	Fee Land - 10-15-34	1/8	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil - $\frac{1}{2}$	(1) Gulf Coast Western Oil Co. - Prod. Pay. of 5,291 bbls. out of 5.46875% of prod. (2) Same as (3) under Tract #18.	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil (to 4,000 ft.) - $\frac{1}{2}$	1.580576
23	SE/4 SE/4, Sec. 28	Fee Land	1/8	TPC&O	None	TPC&O - $\frac{1}{2}$ Sohio Petroleum Co. - 1/3 Broseco Corp. - 95% X 1/6 John B. Rich - 5% X 1/6	1.046379
24	N/2 SE/4 & SW/4 SE/4, Sec. 28	Fee Land - 5-6-26	1/8	Gulf Oil Corp.	None	Gulf Oil Corp. - 100%	3.453676
25	N/2 NE/4 & SE/4 NE/4, Sec. 28	Fee Land - 5-6-26	1/8	Sinclair	None	Sinclair Oil & Gas - 100%	2.310234
26	SW/4 NE/4, Sec. 28	Fee Land - 5-6-26	1/8	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil - $\frac{1}{2}$	(1) Sinclair O&G - 1/16 (2) Gulf Coast Western Oil Co. - Prod. Pay. of 2,084 bbls. out of 5.078125% of prod. (3) Same as (3) under Tract #18.	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil (to 3,900 ft.) - $\frac{1}{2}$	0.660361

EXHIBIT "B" (Cont.)

TRACT NO.	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
27	NE/4 NW/4, Sec. 28	40	Fee Land - 4-20-28	1/8	Ambassador Oil Corp. - 1/2 Frankfort Oil - 1/2	(1) Gulf Oil Corp. - 1/16 to 46 bbls. per well per day. 3/32 on 46 - 200 bbls. per well per day. 1/6 over 200 bbls. per well per day.	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil (to 3,800 ft.) - $\frac{1}{2}$	0.599439
28	S/2 NW/4 & SW/4, Sec. 28	240	Fee Land - 5-6-26	1/8	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil - $\frac{1}{2}$	Same as Tract #27	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil (to 3,800 ft.) - $\frac{1}{2}$	5.212098
32	W/2 NW/4, Sec. 33	80	Fee Land - 4-19-28	1/8	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil Co. - $\frac{1}{2}$	(1) Shell Oil Co. - 1/16 if 1-40 bbls. per day 1/8 if 40-150 bbls. per day 1/4 if 150 bbls. or more per day (2) Gulf Coast Western Oil Co. - Prod. Pay. of 2,616 bbls. out of 4.6875% of prod. (3) Same as (3) under Tract #18.	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil Co. - $\frac{1}{2}$	1.085333
33	E/2 NW/4, Sec. 33	80	Fee Land - 4-19-28	1/8	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil Co. - $\frac{1}{2}$	Shell Oil Co. - 1/16 if 1-40 bbls. per day 3/32 if 41-200 bbls. per day 1/6 if more than 200 bbls. per day	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil Co. (to 4,200 ft.) - $\frac{1}{2}$	1.400295
34	SW/4 NE/4, Sec. 33	40	Fee Land - 4-19-28	1/8	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil Co. - $\frac{1}{2}$	Shell Oil Co. - Same as Tract #33	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil (to 4,200 ft.) - $\frac{1}{2}$	0.891365

EXHIBIT "B" (cont.)

TRACT NO.	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
35	N/2 NE/4 & SE/4 NE/4, Sec. 33	120	See Land - 4-25-28	1/8	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil - $\frac{1}{2}$	(1) Shell Oil Co. - 1/16 when daily average prod. is 35 bbls. or less. 1/8 when daily average prod. is 36 to 150 bbls. 1/4 when daily average prod. is 151 bbls. or more.	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil Co. - $\frac{1}{2}$ (to 4,000 ft.)	2.208143
36	NE/4 Sec. 34	160	Fee Land - 10-2-35	1/8	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil - $\frac{1}{2}$	(1) Sinclair Oil & Gas - 1/16 when daily average prod. is 15 bbls. or less. 1/8 when daily average prod. is 16 bbls. or more (2) Gulf Coast Western Oil Co. - Prod. Pay. of 12,905 bbls. out of 4.6875% of prod. (3) Same as (3) under Tract #18.	Ambassador Oil Corp. - $\frac{1}{2}$ Frankfort Oil Co. - $\frac{1}{2}$ (to 4,000 ft.)	4.227552

TOTALS

3 Federal Tracts	(7 Wells)	280 Acres	7.14% of Unit Area
8 State of New Mexico Tracts	(18 Wells)	720 Acres	18.37% of Unit Area
32 Fee Land Tracts	(66 Wells)	2,920 Acres	74.49% of Unit Area
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43 Tracts	(91 Wells)	3,920 Acres	100.00% of Unit Area

LANGLIE-MATTIX PENROSE SAND UNIT -- LEA COUNTY, NEW MEXICO