

UNIT AGREEMENT

WEST HENSHAW PREMIER UNIT

EDDY COUNTY, NEW MEXICO

APP 1 Ex 1
CS 3377

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
April EXHIBIT NO. 1
DATE NO. 3377

Map of Unit Area Exhibit "A"

Schedule of Ownership Exhibit "B"

Schedule of Tract Participation Exhibit "C"

1-19-66

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EDDY COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
WEST HENSHAW PREMIER UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the first day of January, 1966, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto",

WITNESSETH: That,

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the land 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. 1, Chap. 88, Laws 1943, as amended by Sec. 1 of Chap. 176, Laws of 1961, 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, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (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 co-operative 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 West Henshaw Premier Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations 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 Unitized Formation underlying the Unit Area (as those terms are defined hereinafter), 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: The area described by tracts in Exhibit B and depicted on Exhibit A attached hereto is hereby designated and recognized as constituting the Unit Area, containing 2,400 acres, more or less, in Eddy County, New Mexico. Said land is described as follows:

Township 16 South, Range 30 East, New Mexico Principal Meridian

Section 2: Lots 5, 11, 12, 13 and W/2 SW/4

Section 3: Lots 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16 and S/2

Section 4: Lots 9, 10, 11, 12, 13, 14, 15, 16 and S/2

Section 5: Lots 15, 16, SE/4 and E/2 SW/4

Section 8: N/2 NE/4

Section 10: N/2

For the purpose of this agreement, the following terms and expressions as used herein shall mean:

- (a) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (b) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (c) "Director" is defined as the Director of the United States Geological Survey.
- (d) "Secretary" is defined as the Secretary of the Interior of the United States of America.
- (e) "Department" is defined as the Department of the Interior of the United States of America.
- (f) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey.
- (g) "Unitized Formation" is defined as that portion of the Grayburg formation underlying the Unit Area which includes the continuous stratigraphic interval occurring between a point 100 feet above the top of the Premier zone and the base of the Grayburg formation, said interval having been penetrated between 2733 feet and 2860 feet and the top of the Premier zone having been found at 2833 feet beneath the derrick floor in the Little Lucky Lake Unit Shell Well No. 1, located in Lot 9 of Section 3, Township 16 South, Range 30 East, N.M.P.M., Eddy County, New Mexico, as recorded on the Sonic Log and Laterolog said well, dated May 28, 1959.
- (h) "Unitized Substances" is defined as 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.
- (i) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay

or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.

(j) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.

(k) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.

(l) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.

(m) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".

(n) "Participating Area" is defined as the land within the Unit Area which is designated hereunder as being within the initial Participating Area or any enlargement thereof. The initial Participating Area is designated in Section 13, PARTICIPATION AREA AND TRACT PARTICIPATION, hereof and delineated on Exhibit "A".

(o) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I and Phase II, as hereinafter defined. The Tract Participation of the Tracts within the initial Participating Area is shown on Exhibit "C" attached hereto.

(p) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.

(q) "Phase I" is defined as that period of time beginning at 7:00 A.M. the effective date hereof and continuing until 7:00 A.M. on the first day of the calendar month next beginning after the recovery of an ultimate primary production of 1,750,000 barrels from the total Unit Area (as defined in the original Exhibit "A").

(r) "Phase II" is defined as the remainder of the term of this agreement after the end of Phase I.

(s) "Tract Current Production" is defined as the cumulative total number of barrels of oil produced from the Unitized Formation under

such Tract during the period from September 1, 1962 to February 29, 1964, inclusively, as officially reported to the Commission.

(t) "Unit Area Current Production" is defined as the total Tract Current Production of all Tracts within the Participating Area that are committed to this agreement in accordance with the provisions hereof.

(u) "Tract Ultimate Primary Recovery" is defined as the cumulative total number of barrels of oil produced from the Unitized Formation under such Tract prior to March 1, 1964, as officially reported to the Commission, plus the Tract Remaining Primary Reserves of such Tract.

(v) "Unit Area Ultimate Primary Recovery" is defined as the total Tract Ultimate Primary Recovery of all Tracts within the Participating Area that are committed to this agreement in accordance with the provisions hereof.

(w) "Unit Operating Agreement" is defined as 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, West Henshaw Premier Unit, Eddy County, New Mexico".

(x) "Tract Remaining Primary Reserves" is defined as the number of barrels of oil heretofore approved by the Working Interest Owners as the estimated economic remaining primary oil reserves as of March 1, 1964, of such Tract.

(y) "Unit Area Remaining Primary Reserves" is defined as the summation of the Tract Remaining Primary Reserves of those Tracts effectively committed to this Agreement within the Participating Area.

(z) "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.

SECTION 3. EXHIBITS: Exhibit "A" attached hereto is a map showing the Unit Area and the initial Participating Area and, to the extent known to Unit Operator, the boundaries and identity of Tracts and leases in the Unit Area and in the initial Participating Area. Exhibit "B" attached hereto is

a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. 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 being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the initial Participating Area during Phase I and Phase II, which Tract Participation has been calculated upon the basis of all Tracts within the initial Participating Area being committed to this agreement as of the effective date hereof.

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 having a combined Phase II Unit Participation of fifty percent (50%) or more, the Commissioner and the Supervisor.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary, or when requested by the Supervisor or the Commissioner, 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 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 the Unit Area shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts (if the Participating Area is to be expanded to include same), and other pertinent data. After negotiation (at Working Interest Owner's meeting

or otherwise) if Working Interest Owners having a combined Phase II Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and Director:

- (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto (if the Participating Area is to be expanded to include same) and the proposed effective date thereof; and
- (2) Furnish copies of said notice to the Commissioner, Director, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and
- (3) File, upon the expiration of said thirty-day period as set out in Subsection (2) immediately above, with the Commissioner and the Director the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 16, TRACTS QUALIFIED FOR UNIT PARTICIPATION, *infra*; and (d) Copy of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner, the Commission and the Director become effective as of the date prescribed in the notice thereof or on such other date as set by the Commissioner, the Commission and the Director in the order or instrument approving such expansion.

SECTION 5. AUTOMATIC CONTRACTION: All legal subdivisions of lands within the Unit Area (i.e., 40 acres by Government survey or its nearest lot or Tract equivalent in instances of irregular surveys, however, unusually large lots or Tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this Section), no parts of which are entitled to be in a Participating Area within five (5)

years after the first day of the month following the effective date of this agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the Unit Area and shall no longer be subject to this agreement, unless at the expiration of said five-year period diligent drilling operations are in progress within the Unit Area on lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as drilling operations are continued diligently, with not more than ninety (90) days time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than thirty (30) days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator as set forth in Section 31 hereof entitled "UNAVOIDABLE DELAY"; provided that all legal subdivisions of lands not in a Participating Area and not entitled to become participating under the applicable provisions of this agreement within seven (7) years after said first day of the month following the effective date of this agreement shall be eliminated as above specified. Determination of creditable "UNAVOIDABLE DELAY" time shall be made by Unit Operator and subject to the approval of the Director. The Unit Operator shall, within ninety (90) days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and the Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the seven-year period specified in this Section 5, a single extension of not to exceed two (2) years may be accomplished upon application by Working Interest Owners having a combined Phase II Unit Participation of ninety percent (90%) or more, with consent of the Commissioner and Director, provided the request for such extension is submitted to the Commissioner and Director not later than sixty (60) days prior to the expiration of the said seven-year period.

SECTION 6. UNITIZED LAND AND UNITIZED SUBSTANCES: All oil and gas in the land effectively committed to this agreement, as to the unitized formation, is unitized under the terms of this agreement and herein are called "Unitized Substances". All land committed to this agreement as to such formation shall constitute land referred to herein as Unitized Land or land subject to this agreement.

SECTION 7. UNIT OPERATOR: SOCONY MOBIL OIL COMPANY, INC. 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 Director, and until all Unit wells are placed in a condition satisfactory to the Supervisor and the Commissioner for suspension, abandonment, or operations, whichever is intended by the unit manager, 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 shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by vote of Working Interest Owners having a combined Unit Participation (based upon the then current Unit Participation) of eighty-five percent (85%) or more, exclusive of the Unit Participation of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Director and the Commissioner.

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 operation of the Unitized Land) to the new duly qualified successor Unit Operator or to the unit manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment or 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 from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 9. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall, by affirmative vote of Working Interest Owners having a combined Unit Participation (based upon the then current Unit Participation) of not less than seventy percent (70%), select a successor Unit Operator; provided, however, that should any Working Interest Owner have a voting interest of more than thirty percent (30%), its negative vote or failure to vote shall not serve to disapprove the selection of a new Unit Operator approved by a majority of the voting interests unless such negative vote or abstention from voting is supported by the negative vote of one or more Working Interest Owners having a voting interest of at least five percent (5%), and provided, further, that the vote of the outgoing Unit

Operator shall not be considered for any purpose if it votes to succeed itself. Such selection shall not become effective until: (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and written notice of such selection shall have been filed with the Supervisor. If no successor Unit Operator is selected and qualified as herein provided, the Director and the Commissioner, at their election, may declare this Unit 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 hereunder 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 Unit 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. Upon request 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, except the land lying outside the initial Participating Area, has been reasonably proved to be productive of Unitized Substances in paying quantities or is necessary for Unit operations 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 a greater recovery of Unitized Substances, prevent waste and conserve natural resources consistent with good engineering practices expected of a prudent operator. 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 Commissioner and the Supervisor, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, liquefied petroleum gas, and any other substance or a combination of any of said substances, whether produced from the Unitized Formation 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. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. 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 Commissioner and the Supervisor shall be furnished periodic reports on the progress of the plan of operation and any

revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement, which revisions and changes shall be subject to approval by the Commission, the Commissioner and the Supervisor.

Concurrently with the filing of this agreement for final approval by the Commissioner and the Director, Unit Operator shall submit to the Commissioner and to the Supervisor for approval a plan of operation for the Unitized Land, and, upon approval thereof by the Supervisor and the Commissioner, such plan shall constitute the future operating obligations of the Unit Operator under this Unit Agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operation.

SECTION 13. PARTICIPATION AREA AND TRACT PARTICIPATION: In Exhibit "C" attached hereto, there are listed and numbered the various Tracts which are recognized as reasonably proved to be productive of Unitized Substances in paying quantities and are designated and fixed as the initial Participating Area. Set forth opposite each Tract are figures which represent the Tract Participation allocated to that Tract during Phase I and Phase II, calculated upon the basis of all of said Tracts within the initial Participating Area being committed to this agreement as of the effective date hereof. The Tract Participation of each Tract within the initial Participating Area as set forth in Exhibit "C" has been calculated and determined in accordance with the factors and formula set forth in Section 15, TRACT PARTICIPATION FORMULAS, hereof, and such Tract Participation shall govern the allocation of all Unitized Substances produced from the Participating Area from and after the effective date hereof, subject, however, to any revision or revisions of the Participating Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts within the initial Participating Area are committed to this agreement as of the effective date hereof, Unit Operator shall, as soon as practicable after said effective date, prepare a revised Exhibit "C" setting forth the committed Tracts within the initial Participating Area and showing the revised Tract Participation of each committed Tract, which Tract Participation shall be calculated and determined by using the factors and formulas set forth in Section 15, TRACT PARTICIPATION FORMULAS, hereof, but applying the same only to the committed Tracts. Unit Operator shall promptly file copies of such revised Exhibit "C" with the Commissioner and the Supervisor, and unless such revised Exhibit "C" is disapproved by the Commissioner or the Supervisor within thirty (30) days after such filing, the revised Exhibit "C" shall, effective as of the effective date of this agreement, supersede the original Exhibit "C" attached hereto and shall thereafter govern the allocation of all Unitized Substances produced from the committed Tracts within the Participating Area, subject, however, to any further revision or revisions of the Participating Area and Exhibit "C" in accordance with the provisions hereof.

The Participating Area established hereunder may be revised from time to time with approval of the Commissioner and the Director whenever as a result of further drilling operations, or otherwise, it appears proper to include additional land then regarded as reasonably proved to be productive of Unitized Substances or determined to be essential for operations hereunder. The Tract Participation of each committed Tract within the Participating Area so enlarged shall be revised to such extent and upon such basis and effective date as may be agreed upon by Working Interest Owners having a combined Phase II Unit Participation prior to the revision of ninety percent (90%) or more, which revised Tract Participation shall be subject to approval by the Commissioner and the Director; provided, however, that notwithstanding any provision hereof which may be construed to the contrary, the Tract Participation of each of the respective committed Tracts which were within the Participating Area prior to the revision shall remain in the same ratio one to another.

It is the intent of this Section that the Participating Area shall represent the area known or reasonably estimated to be productive of Unitized Substances in paying quantities or determined to be essential for operations hereunder; however, regardless of any revision of the Participating Area, nothing herein contained shall be construed as requiring any retroactive adjustment for Unitized Substances produced prior to the effective date of any revision of the Participating Area. No land shall be excluded from the Participating Area on account of depletion of Unitized Substances.

In the absence of agreement at any time between the Unit Operator, the Commissioner, and the Director as to the Tracts to be included within any proposed revision of the Participating Area, or in the absence of agreement at any time between Working Interest Owners and the Commissioner and Director, as hereinabove provided, as to the revised Tract Participation to be allocated to the committed Tracts within the Participating Area so enlarged, Working Interest Owners, and each of them, shall have the right to impound, interest free, any and all royalty payments or production affected thereby, except royalties due the United States and the State of New Mexico, which shall be determined and shall be paid or delivered as directed by the Supervisor and Commissioner, respectively, and which shall be held as unearned money until such agreement has been reached, and then applied as earned or returned in accordance with determination of the sum due as Federal or State royalty on the basis of the approved revised Participating Area and Tract Participation of the committed Tracts included therein. Settlement for the Working Interest share of production affected by such absence of agreement, as aforesaid, shall be made as provided in the Unit Operating Agreement.

Whenever it is determined, subject to the approval of the Supervisor as to wells on Federal land and the Commissioner as to wells on State land, that a well drilled hereunder is not capable of producing in paying quantities or is not essential for operations hereunder and inclusion of the Tract upon which it is located within a Participating Area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than Working Interest Owners, be allocated to the Tract upon which the well

is located so long as the well is not included within a Participating Area.

SECTION 14. DEVELOPMENT AND OPERATION OF NON-PARTICIPATING TRACTS:

Any Working Interest Owner or Working Interest Owners having a majority of the Working Interest in any Tract not within the Participating Area and having thereon a regular well location may, with approval of the Supervisor as to Federal land and the Commissioner as to State land, at its sole risk, cost and expense drill or work over a well upon such Tract to test the Unitized Formation, unless within ninety (90) days from receipt of notice from said party of its intention to drill or work over said well, the Unit Operator elects and commences to drill or work over said well in the same manner as other wells drilled or worked over by the Unit Operator under this agreement and the Unit Operating Agreement.

If any well drilled or worked over, as aforesaid, by such Working Interest Owner results in production of Unitized Substances in such quantities that the Tract upon which said well is located may properly be included in the Participating Area, such Participating Area shall be revised to include such Tract as provided in this agreement, and the party paying the cost of drilling or working over such well shall be reimbursed therefor as provided in the Unit Operating Agreement, and such well shall be operated by Unit Operator in accordance with the terms of this agreement and the Unit Operating Agreement.

If any well drilled or worked over, as aforesaid, by such Working Interest Owner results in production of Unitized Substances in quantities insufficient to justify the inclusion in the Participating Area of the Tract upon which said well is located or said Tract is not determined to be essential for operations hereunder, said well may be operated and produced by the Working Interest Owner drilling or working over same, and the production from said well shall be allocated and settlement made therefor in accordance with the last paragraph in Section 13, PARTICIPATION AREA AND TRACT PARTICIPATION.

SECTION 15. TRACT PARTICIPATION FORMULAS: The percentages of Tract Participation set forth in Exhibit "C" for each Tract within the initial Participating Area have been calculated and determined for Phase I and Phase II hereof in accordance with the following formulas:

Percentage of Tract Participation during Phase I equals:

$$100 \times (\text{times}) \frac{\text{Tract Current Production}}{\text{Unit Area Current Production}}$$

Percentage of Tract Participation during Phase II equals:

$$100 \times (\text{times}) \frac{\text{Tract Ultimate Primary Recovery}}{\text{Unit Area Ultimate Primary Recovery}}$$

The percentages of Tract Participation set forth in Exhibit "C" have been calculated upon the basis of all Tracts within the initial Participating Area being committed to this agreement as of the effective date hereof. In the event less than all of said Tracts are so committed as of said date, Exhibit "C" and the Tract Participations set forth therein shall be revised by Unit Operator in accordance with the provisions of Section 13, PARTICIPATION AREA AND TRACT PARTICIPATION.

SECTION 16. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the initial Participating Area that are qualified as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than seventy-five percent (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 commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 16 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 16 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 16 (a) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 16 (a), as such Unit Participation is determined from the Tract Participations set out in Exhibit "C".

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (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 the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, 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 commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 16 (a) and 16 (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 16 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 16 (a) and 16 (b) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under

Section 16 (a) and 16 (b) as such Unit Participation is determined from the Tract Participation set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit 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 or those Tracts which have been committed and made subject to this agreement, and shall set forth in said schedule opposite each such committed Tract the assigned Tract number, lease number and owner of record of such Tract. In the event that less than all of the Tracts within the initial Participating Area have been committed to this agreement on the effective date hereof, Unit Operator shall prepare a revised Exhibit "C" and file copies thereof with the Commissioner and the Supervisor in accordance with the provisions of Section 13, PARTICIPATION AREA AND TRACT PARTICIPATION.

SECTION 17. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved from the committed Tracts within the Participating Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the initial Participating Area or any revision thereof in accordance with the Tract Participation effective hereunder during the respective periods, either Phase I or Phase II, in which such Unitized Substances were produced as such Tract Participation is shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less

than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto 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 force and 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 the Working Interest or the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participation assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 19, ROYALTY SETTLEMENT, hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any

portion of the Unitized Substances shall be borne by the party receiving the same in kind.

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 at not less than the price received by the Working Interest Owner acting as Unit Operator; 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.

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 shall be responsible for making payment therefor to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 18. OIL IN LEASE TANKAGE ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks on the Unitized Land in order to ascertain the amount of merchantable oil above the pipe line connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unitized Land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the

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

SECTION 19. ROYALTY SETTLEMENT: The United States and the State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

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

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

SECTION 20. 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 21. 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 22. 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 23. 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 the lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing or secondary recovery operations performed hereunder upon any Tract of Unitized Land 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 Land pursuant to direction or consent of the Commissioner and the Supervisor or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of Unitized Land.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil 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 which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(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 Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784): "Any [Federal] lease heretofore or hereafter committed to any such [unit] plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

SECTION 24. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon 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 25. 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 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 having a combined Phase II Unit Participation of at least eighty-five percent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy percent (70%) of the Phase II Royalty Interest in said Unit Area; and
- (b) The approval of this agreement by the Commission, the Commissioner, and the Director; and
- (c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Eddy County, New Mexico, by the Unit Operator; and
- (d) The filing with the Commissioner and the Supervisor and in the office of the County Clerk of Eddy County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before July 1, 1966, this agreement shall expire ipso facto on said date (hereinafter called "expiration date") and thereafter be of no further force and effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Phase II Unit Participation of at least sixty-five percent (65%), and the Working Interest Owners having a combined Phase II Unit Participation of at least eighty percent (80%) committed to this agreement have decided to extend said expiration date for a period not to exceed one (1) year (hereinafter called "extended expiration date"). If said expiration date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended expiration date this agreement shall expire ipso facto on said extended expiration date and thereafter be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are or can be 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, and so long thereafter as unitized substances are or can be produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner and the Director by Working Interest Owners having at least ninety percent (90%) Phase II Unit Participation, as determined from Exhibit "C". Notice of 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.

Unit Operator shall, within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

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

Powers in this Section vested in the Director and Commissioner 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 27. NONDISCRIMINATION: In connection with the performance of work under this agreement, Unit Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), which are incorporated by reference in this agreement.

SECTION 28. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner, the Commission, and the Department, and to appeal from any order issued under the rules and regulations of the Commissioner, the Commission, or the Department, or to apply for relief from any of said rules and regulations or

in any proceedings relative to operations before the Commissioner, the Commission, or the Department, 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.

SECTION 29. 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 30. 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; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 31. 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 32. LOSS OF TITLE: In the event any Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this agreement to meet the conditions of Section 16, TRACTS QUALIFIED FOR UNIT PARTICIPATION, because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 16, TRACTS QUALIFIED FOR UNIT PARTICIPATION, within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner and Director setting forth the Tracts committed hereto, and if such Tract was within the Participating Area, Unit Operator shall also revise Exhibit "C" to show the Tracts in the Participating Area that remain committed hereto and the Tract Participation of each said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and the Director and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, 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 leases, 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 33. NONJOINDER AND SUBSEQUENT JOINDER: If the owner of any interest in a Tract within the Unit Area fails or refuses to subscribe or consent in writing to this agreement, such Tract shall not be deemed committed to this agreement unless such Tract may be and is qualified as provided in Section 16, TRACTS QUALIFIED FOR UNIT PARTICIPATION, hereof. Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this agreement by the Director may thereafter be committed hereto upon compliance with the applicable provisions of Section 16, TRACTS QUALIFIED FOR UNIT PARTICIPATION, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 13, PARTICIPATION AREA AND TRACT PARTICIPATION, and as set forth in Exhibit "C", by the owner or owners thereof subscribing or consenting in writing to this agreement, and if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from the effective date hereof, the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Phase II Unit Participation of not less than ninety percent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such

Royalty Owner. Except as may be otherwise herein provided, subsequent joinders to this agreement, as to Tracts within the Unit Area, shall be effective as of 7:00 A.M. on the first day of the month following the approval thereof by the Commissioner and the Director or the Supervisor.

SECTION 34. 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 35. JOINDER IN DUAL CAPACITY: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 36. 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 hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States or to the State of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 37. 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.

SECTION 38. BORDER AGREEMENTS: Unit Operator, with concurrence of Working Interest Owners having a combined Phase II Unit Participation of sixty-five percent (65%) or more, may, subject to approval of the Commissioner and the Supervisor, 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 39. PERSONAL PROPERTY EXCEPTED: Working Interest Owners have each individually heretofore placed in or on their wells and in or on lands affected by this agreement, various items of personal property which are lease and well equipment, as to all of which Working Interest Owners have the right, as provided in their respective leases, to remove such property from the premises and all of which installations were made with the intention and understanding that all of the same would be and remain personal property and that no part thereof would be or become a part of the realty. Working Interest Owners except from the terms and provisions of this agreement, and hereby sever from said lands, for all purposes, all such lease and well equipment which may be or may hereafter become located in or on the lands or in the wells on the lands affected hereby. To conform their respective investments in such equipment, Working Interest Owners have made a separate agreement with each other with respect thereto.

SECTION 40. NO PARTNERSHIP: 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 41. LIEN OF UNIT OPERATOR: Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

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

SOCONY MOBIL OIL COMPANY, INC.

Date: _____

By: _____
Attorney in Fact

STATE OF TEXAS X
 X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day of _____, 1966, by A. H. MASSAD, Attorney in Fact of SOCONY MOBIL OIL COMPANY, INC., a New York corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

* * * * *

STATE OF _____ X
 X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1966, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

* * * * *

STATE OF _____ X
 X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1966, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

* * * * *

STATE OF _____ X
 X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1966, by _____.

My Commission Expires:

Notary Public

COUNTRY

will not you



UNIT BOUNDARY		
PARTICIPATING AREA BOUNDARY		
FEDERAL - 2160 ACRES		90.0%
STATE - 240 ACRES		10.0%
TOTALS	2400 ACRES	100.0%
TRACT NUMBER		

EXHIBIT "B"
TO
UNIT AGREEMENT
WEST HENSHAW PREMIER UNIT
EDDY COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	LEASE NO. & EXPIRATION DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT
FEDERAL LANDS							
1	<u>Township 16 South, Range 30 East</u> Sec. 4: SW/4	160	LC-060398 HBP	U.S.A. 12½%	J. A. Fairey & B. R. Gorman, Co-Exrs. of Ballard E. Spencer Est.	Rubie C. Bell .0083333 Elizabeth C. Chaney .0083333 Olen F. Featherstone .0166667 Ballard E. Spencer Tr. Inc. .0166667	DEPCO Inc. 100%
2	<u>Township 16 South, Range 30 East</u> Sec. 3: Lots 9, 10, 11	120	LC-060398-B HBP	U.S.A. 12½%	Shell Oil Company	Rubie C. Bell .0083333 Elizabeth C. Chaney .0083333 Olen F. Featherstone .0166667 Ballard E. Spencer Tr. Inc. .0166667	Shell Oil Company 100.00%
3	<u>Township 16 South, Range 30 East</u> Sec. 3: Lot 16	40	LC-062497 HBP	U.S.A. 12½%	Margaret B. Phillips	Dan L. Williams .0400000	Shell Oil Company 100.00%
4	<u>Township 16 South, Range 30 East</u> Sec. 4: SE/4	160	LC-067610 HBP	U.S.A. 12½%	Pan American Petroleum Corp.	I. W. Bosworth .0145833 Gail Alice James .0145833 Robert H. Miller .0145834	Pan American Petroleum Corp. 100.00%

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	LEASE NO. & EXPIRATION		BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST	
			DATE				OWNER AND AMOUNT	OWNER AND AMOUNT		
FEDERAL LANDS										
5	<u>Township 16 South, Range 30 East</u> Sec. 3: SW/4 Sec. 10: NE/4	320	LC-069465 HBP	U.S.A. 12½%	Hondo Oil & Gas Co. General American Oil Co. of Texas	Olen F. Featherstone .0093750 Margaret Lee Grimes .0015625 John E. Stablein, Jr. .0046875 Sharon Ann Sterling .0015625 Thomas R. Sterling, Jr. .0015625		The Atlantic Refining Company 50.00% General American Oil Company of Texas 50.00%		
6	<u>Township 16 South, Range 30 East</u> Sec. 3: Lots 12, 13, 14, 15 & SE/4 Sec. 10: NW/4	480	LC-069641 HBP	U.S.A. 12½%	Pauline V. Trigg	John H. Trigg .0100000 Union Bank-Los Angeles A/C Institute Oil Inc. Trigg Production Pay- ment "A" .6055000		Socony Mobil Oil Company, Inc. 100.00%		
7-A	<u>Township 16 South, Range 30 East</u> Sec. 3: Lot 5	40	NM-01171-A HBP	U.S.A. 12½%	Sinclair Oil & Gas Co. Benedum-Trees Oil Co. Bentex Oil Corp.	Selma E. Andrews .0006713 Albuquerque National Bank, Trustee Under Will of F. A. Andrews, Deceased .0005787 Perry R. Bass .0018750 Thomas M. Bradshaw .0400000 Lillian T. Hinkle .0025000 David O. Jewell .0156250 Richardson Oil Inc. .0056250 Henry Shaw, Jr. .0156250		Sinclair Oil & Gas Co. 47.50% Benedum-Trees Oil Co. 42.50% Bentex Oil Corp. 10.00%		

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	LEASE NO. & EXPIRATION DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT
FEDERAL LANDS							
7-A (Contd.)							
7-B	Township 16 South, Range 30 East Sec. 3: Lot 6	40	NM-01171-A HBP	U.S.A. 12½%	Kenneth McIntosh	Selma E. Andrews .0006714 Albuquerque National Bank, Trustee Under Will of F.A. Andrews, Deceased .0005786 Perry R. Bass & Nancy Lee Bass .0018750 Thomas M. Bradshaw .0400000 Lillian T. Hinkle .0025000 David O. Jewell .0156250 Richardson Oil Inc. .0056250 Sinclair Oil & Gas Co. .0312500 Henry Shaw, Jr. .0156250 J. R. Smith .0050000 E. H. Ward, Exr. of Est. of Julia Brainard, Deceased .0012500 Wm. S. Wright, et ux .0050000	Wm. W. Atwell 6.250% Frank K. Cahoon 10.625% Charles N. Coll 3.125% James N. Coll 3.125% Jon F. Coll 3.125% Max W. Coll 3.125% Robert M. Davenport 6.250% Roy E. Kimsey, Jr. 10.625% Judy Kyle McClatchy 6.250% M. McDonnold, Jr. 10.000% G. E. Self 12.500% J. V. Terrell 25.000%

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	LEASE NO. & EXPIRATION		BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST		
			DATE				OWNER AND AMOUNT	OWNER AND AMOUNT			
FEDERAL LANDS											
7-C	<u>Township 16 South, Range 30 East</u> <u>Sec. 3: Lots 7 & 8</u>	80	NM-01171-A HBP		U.S.A. 12½%	Kenneth McIntosh	Selma E. Andrews .0006713	Perry R. Bass 50.00%			
							Albuquerque National Bank, Trustee Under Will of F. A. Andrews, Deceased .0005787	Richardson Oil Inc. 50.00%			
							Thomas M. Bradshaw .0400000				
							Lillian T. Hinkle .0025000				
							J. R. Smith .0050000				
							E. H. Ward, Exr. of Est. of Julia Brainard, Deceased .0012500				
							Wm. S. Wright, et ux .0050000				
8	<u>Township 16 South, Range 30 East</u> <u>Sec. 8: N/2 NE/4</u>	80	NM-04422 HBP		U.S.A. 12½%	Harold A. Thompson	John H. Trigg .0100000	Socony Mobil Oil Company, Inc. 100.00%			
							Union Bank-Los Angeles A/C Institute Oil Inc., Trigg Production Pay- ment "A" .6055000				
9	<u>Township 16 South, Range 30 East</u> <u>Sec. 4: Lots 9, 10, 11</u>	120	NM-06407-B HBP		U.S.A. 12½%	Aileen T. Taylor	Aileen T. Taylor .0250000	Shell Oil Company 100.00%			
							Doras Van Orsdol .0250000				

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	LEASE NO. & EXPIRATION DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT
FEDERAL LANDS							
10	<u>Township 16 South, Range 30 East</u> Sec. 5: SE/4 & E/2 SW/4	240	NM-06407-C HBP	U.S.A. 12½%	Olen F. Featherstone	Elizabeth C. Chaney .0250000	Olen F. Featherstone 100.00%
11	<u>Township 16 South, Range 30 East</u> Sec. 4: Lots 13, 14, 15, 16	160	NM-046615 HBP	U.S.A. 12½%	Shell Oil Company	Rubie C. Bell .0083333 Elizabeth C. Chaney .0083333 Olen F. Featherstone .0166667 Ballard E. Spencer Tr. Inc. .0166667	Shell Oil Company 100.00%
12	<u>Township 16 South, Range 30 East</u> Sec. 4: Lot 12 Sec. 5: Lots 15, 16	120	NM-0359260 Expires 4-30-68	U.S.A. 12½%			L. C. Harris 100.00%
TOTAL TWELVE FEDERAL TRACTS - 2,160 ACRES OR 90% OF UNIT AREA							
STATE LANDS							
13	<u>Township 16 South, Range 30 East</u> Sec. 2: Lots 5, 11, 13	120	OG-789 HBP	State 12½%	Texaco Inc.	None	Texaco Inc. 100.00%
14	<u>Township 16 South, Range 30 East</u> Sec. 2: Lot 12	40	OG-948 HBP	State 12½%	Shell Oil Company	None	Shell Oil Company 100.00%
15	<u>Township 16 South, Range 30 East</u> Sec. 2: W/2 SW/4	80	NM-E-5131 HBP	State 12½%	Humble Oil & Refining Company	None	Humble Oil & Refining Co. 100.00%
TOTAL THREE STATE TRACTS - 240 ACRES OR 10% OF UNIT AREA							
GRAND TOTAL FIFTEEN TRACTS - 2,400 ACRES OR 100% OF UNIT AREA							

EXHIBIT "C"
TO
UNIT AGREEMENT
WEST HENSHAW PREMIER UNIT
EDDY COUNTY, NEW MEXICO

TRACT NUMBER	LEASE OPERATOR	TRACT PARTICIPATION	
		PHASE I	PHASE II
1	DEPCO Inc. Spencer-Federal	11.728	14.024
2	Shell Oil Company Little Lucky Lake Unit	11.539	9.534
3	Shell Oil Company Williams-Federal "B"	5.595	3.059
4	Pan American Petroleum Corporation Bosworth-Federal	3.385	8.114
5	General American Oil Co. of Texas Stablein-Federal	8.556	12.524
6	Socony Mobil Oil Company, Inc. Federal "P" Lease	38.943	27.414
7-A	Sinclair Oil & Gas Company Bass-Federal Lease	2.182	0.404
7-B	Kimsey and Cahoon Bass-Federal Lease	0.992	0.173
7-C	Perry R. Bass Hinkle-Federal Lease	0.551	0.693
8	Socony Mobil Oil Company, Inc. Federal "D"	-0-	.133
9	Shell Oil Company Taylor-Federal	1.718	3.486
10	Olen F. Featherstone Crosby-Federal	3.609	8.397
11	Shell Oil Company Spencer-Federal "A"	1.894	5.829
12	L. C. Harris Federal	-0-	-0-
TOTAL FEDERAL LEASES		90.692	93.784
13	Texaco Inc. State CJ	1.931	1.443
14	Shell Oil Company State HA	0.540	0.548
15	Humble Oil & Refining Company New Mex State BC	6.837	4.225
TOTAL STATE LEASES		9.308	6.216
GRAND TOTAL		100.000	100.000

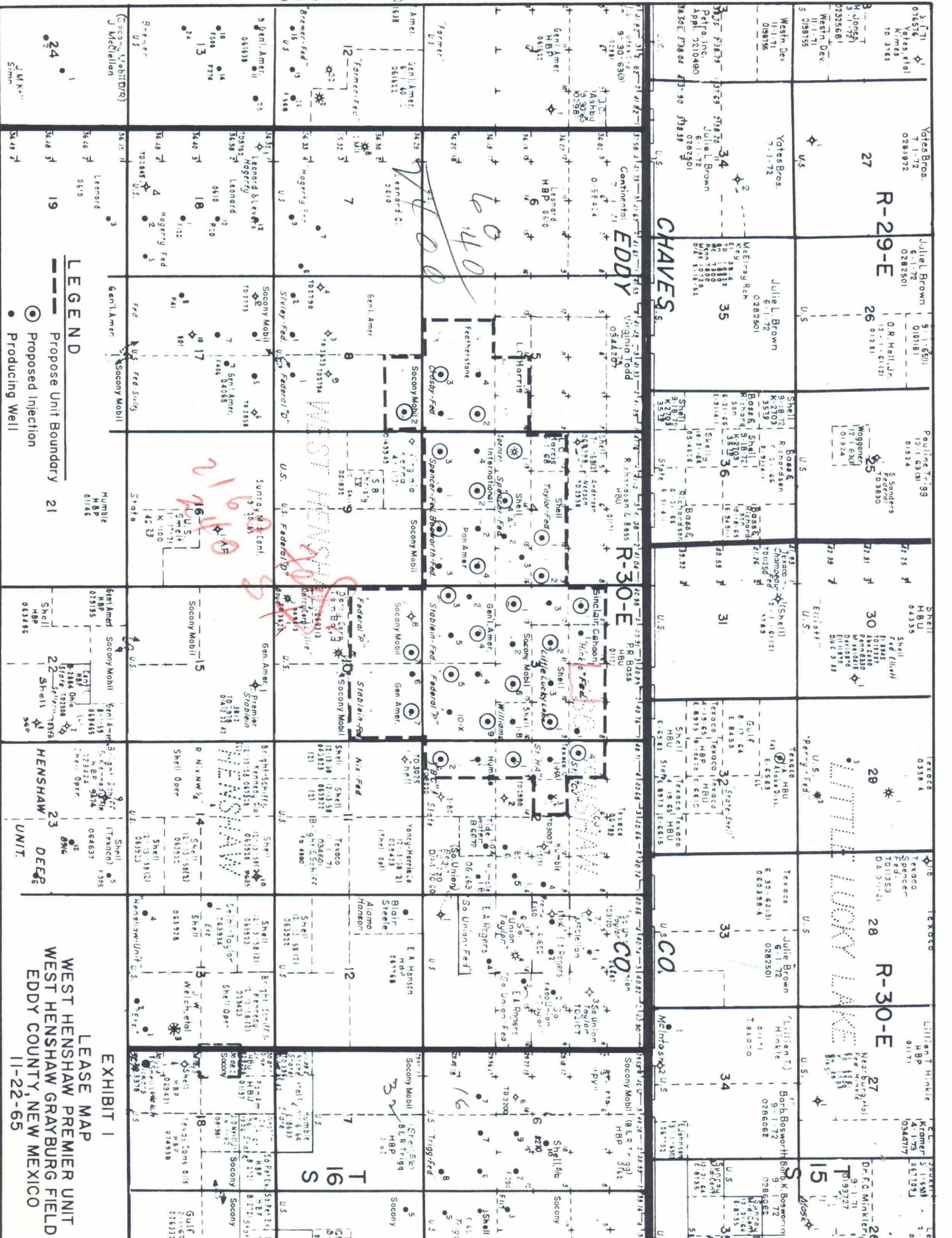


EXHIBIT 1
LEASE MAP
WEST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO
11-22-65

CHAVES

R-30-E

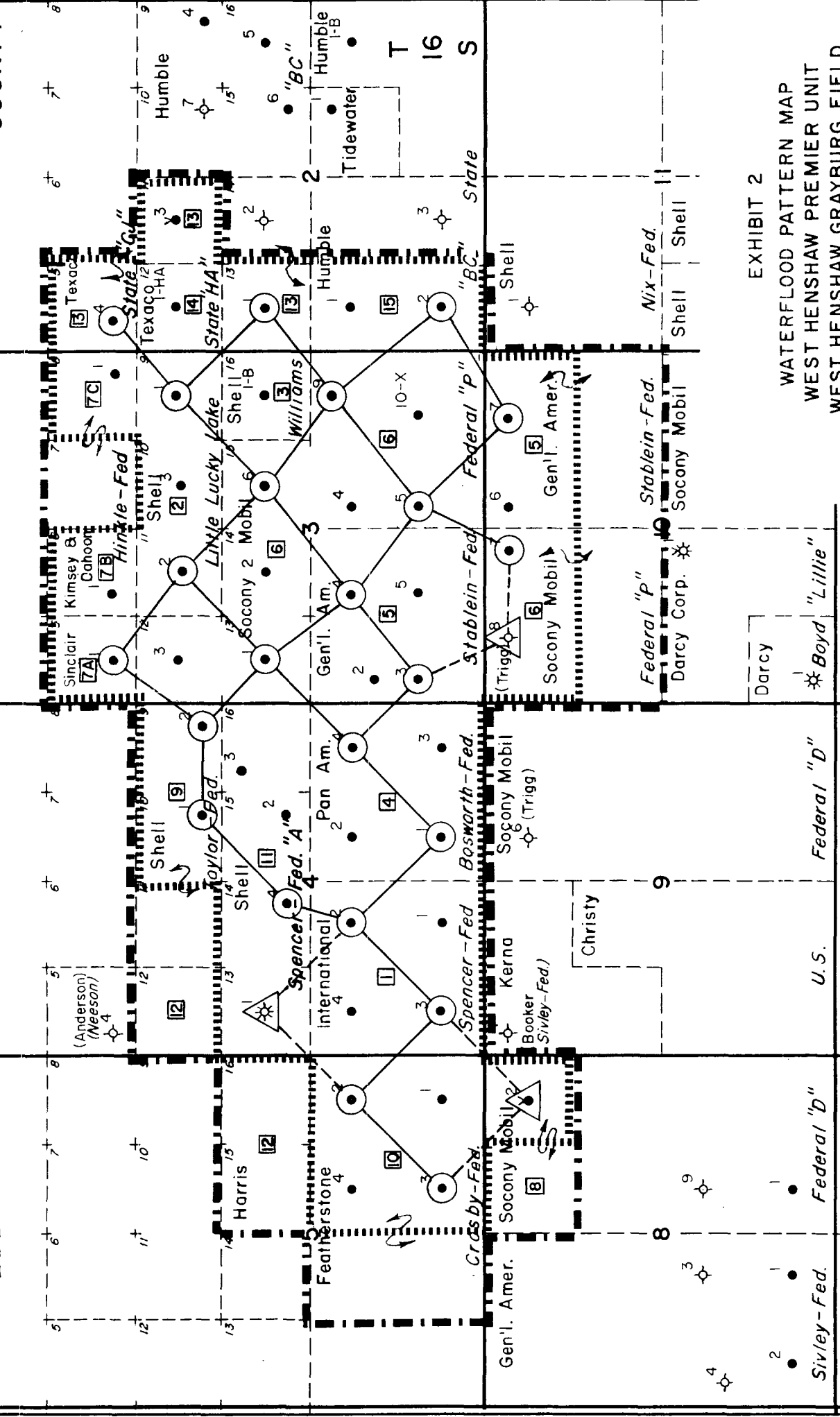
COUNTY

EDDY

Richardson & Bass

P.R. Bass

Texaco COUNTY



LEGEND

- Proposed Unit Boundary
- Proposed Participating Area
- Tract Number
- Additional Injection Wells (Temporarily Abandoned)
- Injection Well
- Producing Well

EXHIBIT 2

WATERFLOOD PATTERN MAP
WEST HENSHAW PREMIER UNIT
WEST HENSHAW GRAYBURG FIELD
EDDY COUNTY, NEW MEXICO
11-22-65 SCALE: 1"=2000'
R.W.W.

Schlumberger Well Surveying Corporation
 10/16/65

COUNTY: EDDY FIELD: WEST HENSHAW G. BURG LOCATION: LITTLE LUCKY LAKE WELL: UNIT #1 COMPANY: TEXAS-SHELL	COMPANY: TEXAS-SHELL	Other Surveys LL, MLL
	WELL: LITTLE LUCKY	Location of Well 4620' FSL 660' FEL
	LAKE UNIT #1	
	FIELD: W. HENSHAW G. BURG	
	LOCATION SEC. 3-6S-30E	
COUNTY: EDDY	STATE: NEW MEXICO	Elevation: K.B.: D.F.: 3901 or G.L.:

Log Depths Measured From KB 10.20 Ft. above C.L.

RUN No.	GR			
Date	5-28-69			
First Reading	2960	2958		
Last Reading	1930	0		
Feet Measured	1960	2958		
Csg. Schum.	425			
Csg. Driller	2964			
Depth Reached	2960			
Bottom Driller	2960			
Mud Mat.	5.31	GEL		
Dens. Visc.	10.6	33		
Mud Resist.	0.59	70 °F		
Res. BHT	0.45	95 °F		
pH				
Wtr. Loss	10	CC 30 min		
Rml	0.46	72 °F		
Bit Size	7 7/8			
Spun:				
1' TD	To 2800	To	To	
3' TD	To 1000	To	To	
Op. Rig Time	3 HRS			
Truck No.	2522-GRISIA			
Recorded By	ROCK INS			
Witness	KIN			

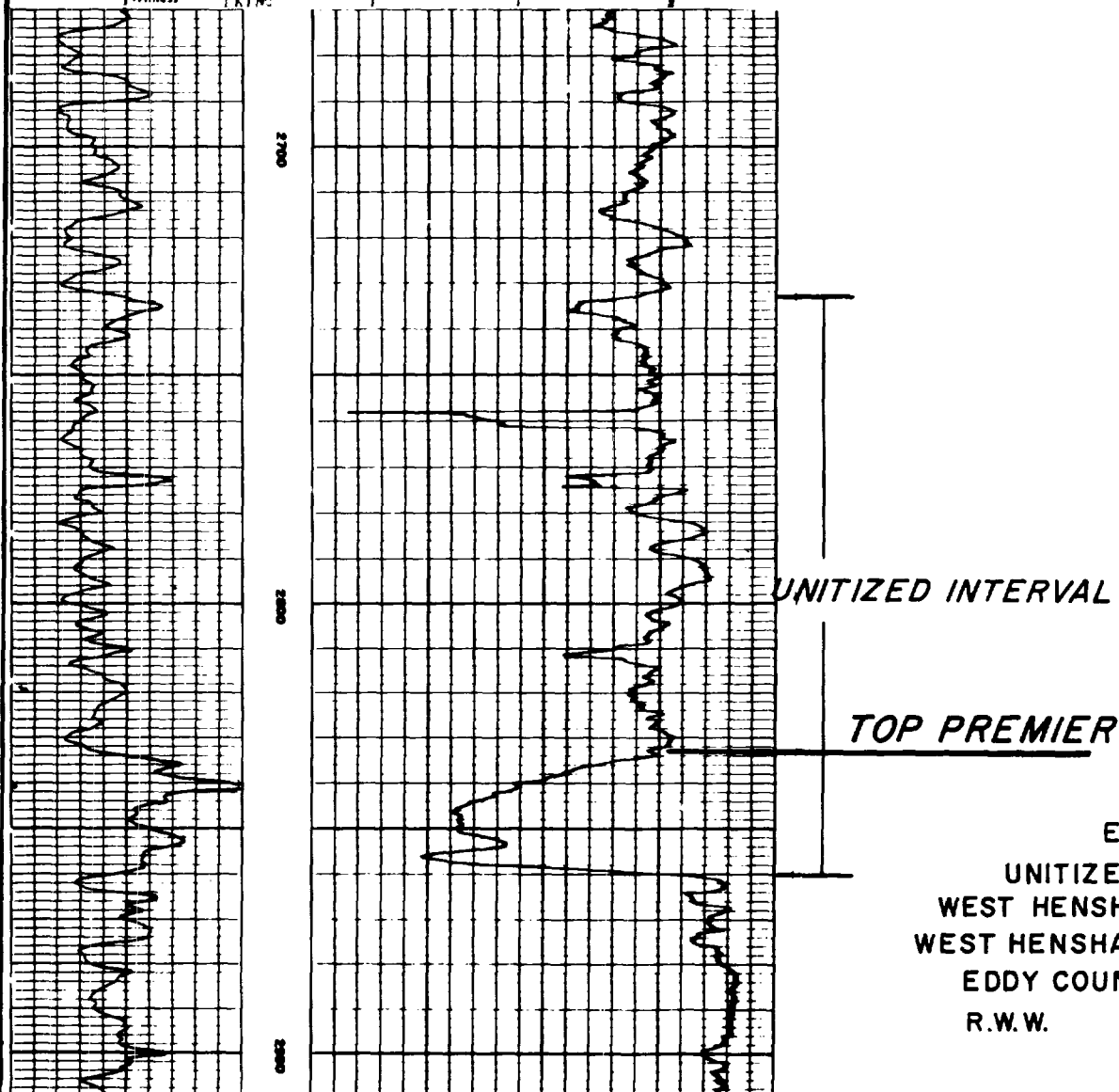


EXHIBIT 3
 UNITIZED FORMATION
 WEST HENSHAW PREMIER UNIT
 WEST HENSHAW GRAYBURG FIELD
 EDDY COUNTY, NEW MEXICO
 R.W.W. 11-22-65

1. well 2377

Case 3377

**UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
WEST HENSHAW PREMIER UNIT
COUNTY OF EDDY
STATE OF NEW MEXICO**

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Schedule of Ownership	Exhibit "B"
Schedule of Tract Participation	Exhibit "C"

UNIT AGREEMENT
WEST HENSHAW PREMIER UNIT
EDDY COUNTY, NEW MEXICO

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Exhibit "A" (Map of Unit Area)

Exhibit "B" (Schedule of Ownership)

Exhibit "C" (Schedule of Tract Participation)

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
WEST HENSHAW PREMIER UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the _____ day of _____, 19____, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto",

WITNESSETH: That,

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the land 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. 1, Chap. 88, Laws 1943, as amended by Sec. 1 of Chap. 176, Laws of 1961, 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, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (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 co-operative 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 West Henshaw Premier Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations 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 Unitized Formation underlying the Unit Area (as those terms are defined hereinafter), 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: The area described on Exhibit A attached hereto is hereby designated and recognized as constituting the unit area, containing 2,400 acres, more or less, in Eddy County, New Mexico. For the purpose of this agreement, the following terms and expressions as used herein shall mean:

(a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto, and said land is hereby described as follows:

Township 16 South, Range 30 East, New Mexico Principal Meridian

Section 2: Lots 5, 11, 12, 13 and W/2 SW/4

Section 3: Lots 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15,
16 and S/2

Section 4: Lots 9, 10, 11, 12, 13, 14, 15, 16 and S/2

Section 5: Lots 15, 16, SE/4 and E/2 SW/4

Section 8: N/2 NE/4

Section 10: N/2

(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) "Unitized Formation" is defined as that portion of the Grayburg formation underlying the Unit Area which includes the continuous stratigraphic interval occurring between a point 100 feet above the top of the Premier zone and the base of the Grayburg formation, said interval having been penetrated between 2733 feet and 2860 feet and the top of the Premier zone having been found at 2833 feet beneath the derrick floor in the Little Lucky Lake Unit Shell Well No. 1, located in Lot 9 of Section 3, Township 16 South, Range 30 East, N.M.P.M., Eddy County, New Mexico, as recorded on the Sonic Log and Laterolog said well, dated May 28, 1959.

(i) "Unitized Substances" is defined as 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.

(j) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay

or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.

(k) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.

(l) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.

(m) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.

(n) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".

(o) "Participating Area" is defined as the land within the Unit Area which is designated hereunder as being within the initial Participating Area or any enlargement thereof. The initial Participating Area is designated in Section 13 hereof and delineated on Exhibit "A".

(p) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I and Phase II, as hereinafter defined. The Tract Participation of the Tracts within the initial Participating Area is shown on Exhibit "C" attached hereto.

(q) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.

(r) "Phase I" is defined as that period of time beginning at 7:00 A.M. the effective date hereof and continuing until 7:00 A.M. on the first day of the calendar month next beginning after the recovery of an ultimate primary production of 1,750,000 barrels from the total Unit Area (as defined in the original Exhibit "A").

(s) "Phase II" is defined as the remainder of the term of this agreement after the end of Phase I.

(t) "Tract Current Production" is defined as the cumulative total number of barrels of oil produced from the Unitized Formation under

such Tract during the period from September 1, 1962 to February 29, 1964, inclusively, as officially reported to the Commission.

(u) "Unit Area Current Production" is defined as the total Tract Current Production of all Tracts within the Participating Area that are committed to this agreement in accordance with the provisions hereof.

(v) "Tract Ultimate Primary Recovery" is defined as the cumulative total number of barrels of oil produced from the Unitized Formation under such Tract prior to March 1, 1964, as officially reported to the Commission, plus the Tract Remaining Primary Reserves of such Tract.

(w) "Unit Area Ultimate Primary Recovery" is defined as the total Tract Ultimate Primary Recovery of all Tracts within the Participating Area that are committed to this agreement in accordance with the provisions hereof.

(x) "Unit Operating Agreement" is defined as 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, infra, and shall be styled "Unit Operating Agreement, West Henshaw Premier Unit, Eddy County, New Mexico".

(y) "Tract Remaining Primary Reserves" is defined as the number of barrels of oil heretofore approved by the Working Interest Owners as the estimated economic remaining primary oil reserves as of March 1, 1964, of such Tract.

(z) "Unit Area Remaining Primary Reserves" is defined as the summation of the Tract Remaining Primary Reserves of those Tracts effectively committed to this Agreement within the Participating Area.

(aa) "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.

SECTION 3. EXHIBITS: Exhibit "A" attached hereto is a map showing the Unit Area and the initial Participating Area and, to the extent known to Unit Operator, the boundaries and identity of Tracts and leases in the Unit Area and in the initial Participating Area. Exhibit "B" attached hereto is

a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. 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 being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the initial Participating Area during Phase I and Phase II, which Tract Participation has been calculated upon the basis of all Tracts within the initial Participating Area being committed to this agreement as of the effective date hereof.

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 having a combined Phase II Unit Participation of fifty percent (50%) or more, the Commissioner and the Supervisor.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary, or when requested by the Supervisor, 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 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 the Unit Area shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts (if the Participating Area is to be expanded to include same), and other pertinent data. After negotiation (at Working Interest Owner's meeting

or otherwise) if Working Interest Owners having a combined Phase II Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and Director:

- (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto (if the Participating Area is to be expanded to include same) and the proposed effective date thereof; and
- (2) Furnish copies of said notice to the Commissioner, Director, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and
- (3) File, upon the expiration of said thirty-day period as set out in Subsection (2) immediately above, with the Commissioner and the Director the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 16, *infra*; and (d) Copy of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner, the Commission and the Director become effective as of the date prescribed in the notice thereof or on such other date as set by the Commissioner, the Commission and the Director in the order or instrument approving such expansion.

SECTION 5. AUTOMATIC CONTRACTION: All legal subdivisions of lands within the Unit Area (i.e., 40 acres by Government survey or its nearest lot or Tract equivalent in instances of irregular surveys, however, unusually large lots or Tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this Section), no parts of which are entitled to be in a Participating Area within three (3)

years after the first day of the month following the effective date of this agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the Unit Area and shall no longer be subject to this agreement, unless at the expiration of said three-year period diligent drilling operations are in progress within the Unit Area on lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as drilling operations are continued diligently, with not more than ninety (90) days time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than thirty (30) days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator as set forth in the Section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a Participating Area and not entitled to become participating under the applicable provisions of this agreement within five (5) years after said first day of the month following the effective date of this agreement shall be eliminated as above specified. Determination of creditable "Unavoidable Delay" time shall be made by Unit Operator and subject to the approval of the Director. The Unit Operator shall, within ninety (90) days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and the Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the five-year period specified in this Section 5, a single extension of not to exceed two (2) years may be accomplished upon application by Working Interest Owners having a combined Phase II Unit Participation of ninety percent (90%) or more, with consent of the Commissioner and Director, provided the request for such extension is submitted to the Commissioner and Director not later than sixty (60) days prior to the expiration of the said five-year period.

SECTION 6. UNITIZED LAND AND UNITIZED SUBSTANCES: All oil and gas in the land effectively committed to this agreement, as to the unitized formation, is unitized under the terms of this agreement and herein are called "Unitized Substances". All land committed to this agreement as to such formation shall constitute land referred to herein as Unitized Land or land subject to this agreement.

SECTION 7. UNIT OPERATOR: SOCONY MOBIL OIL COMPANY, INC. 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 Director, and until all Unit wells are placed in a condition satisfactory to the Supervisor and the Commissioner for suspension, abandonment, or operations, whichever is intended by the unit manager, 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 shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by vote of Working Interest Owners having a combined Unit Participation (based upon the then current Unit Participation) of eighty-five percent (85%) or more, exclusive of the Unit Participation of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Director and the Commissioner.

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 operation of the Unitized Land) to the new duly qualified successor Unit Operator or to the common agent if no such new Unit Operator is elected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment or 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 from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 9. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall, by affirmative vote of Working Interest Owners having a combined Unit Participation (based upon the then current Unit Participation) of not less than seventy percent (70%), select a successor Unit Operator; provided, however, that should any Working Interest Owner have a voting interest of more than thirty percent (30%), its negative vote or failure to vote shall not serve to disapprove the selection of a new Unit Operator approved by a majority of the voting interests unless such negative vote or abstention from voting is supported by the negative vote of one or more Working Interest Owners having a voting interest of at least five percent (5%), and provided, further, that the vote of the outgoing Unit

Operator shall not be considered for any purpose if it votes to succeed itself. Such selection shall not become effective until: (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and written notice of such selection shall have been filed with the Supervisor. If no successor Unit Operator is selected and qualified as herein provided, the Director and the Commissioner, at their election, may declare this Unit 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 hereunder 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 Unit 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. Upon request 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, except the land lying outside the initial Participating Area, has been reasonably proved to be productive of Unitized Substances in paying quantities or is necessary for Unit operations 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 a greater recovery of Unitized Substances, prevent waste and conserve natural resources consistent with good engineering practices expected of a prudent operator. 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 Commission, the Commissioner and the Supervisor, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, and any other substance or a combination of any of said substances, whether produced from the Unitized Formation 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. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. 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 Commissioner and the Supervisor shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this

agreement, which revisions and changes shall be subject to approval by the Commission, the Commissioner and the Supervisor.

Concurrently with the filing of this agreement for final approval by the Commissioner and the Director, Unit Operator shall submit to the Commissioner and to the Supervisor for approval a plan of operation for the Unitized Land, and, upon approval thereof by the Commission, the Supervisor and the Commissioner, such plan shall constitute the future operating obligations of the Unit Operator under this Unit Agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operation.

SECTION 13. PARTICIPATION AREA AND TRACT PARTICIPATION: The following described land is recognized as reasonably proved to be productive of Unitized Substances in paying quantities and is hereby designated and fixed as the initial Participating Area:

Township 16 South, Range 30 East, New Mexico Principal Meridian

Section 2: Lots 5, 11, 12, 13 and W/2 SW/4

Section 3: Lots 5, 6, 8, 9, 10, 11, 12, 13, 14, 15, 16 and S/2

Section 4: Lots 9, 10, 13, 14, 15, 16 and S/2

Section 5: SE/4

Section 8: NE/4 NE/4

Section 10: N/2 NE/4, N/2 NW/4

Containing 1920 acres, more or less, in Eddy County, New Mexico.

In Exhibit "C" attached hereto, there are listed and numbered the various Tracts within the initial Participating Area, and set forth opposite each Tract are figures which represent the Tract Participation allocated to that Tract during Phase I and Phase II, calculated upon the basis of all of said Tracts within the initial Participating Area being committed to this agreement as of the effective date hereof. The Tract Participation of each Tract within the initial Participating Area as set forth in Exhibit "C" has been calculated and determined in accordance with the factors and formula set forth in Section 15 hereof, and such Tract Participation shall govern the allocation of all Unitized Substances pro-

duced from the Participating Area from and after the effective date hereof, subject, however, to any revision or revisions of the Participating Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts within the initial Participating Area are committed to this agreement as of the effective date hereof, Unit Operator shall, as soon as practicable after said effective date, prepare a revised Exhibit "C" setting forth the committed Tracts within the initial Participating Area and showing the revised Tract Participation of each committed Tract, which Tract Participation shall be calculated and determined by using the factors and formulas set forth in Section 15 hereof, but applying the same only to the committed Tracts. Unit Operator shall promptly file copies of such revised Exhibit "C" with the Commissioner and the Supervisor, and unless such revised Exhibit "C" is disapproved by the Commissioner or the Supervisor within thirty (30) days after such filing, the revised Exhibit "C" shall, effective as of the effective date of this agreement, supersede the original Exhibit "C" attached hereto and shall thereafter govern the allocation of all Unitized Substances produced from the committed Tracts within the Participating Area, subject, however, to any further revision or revisions of the Participating Area and Exhibit "C" in accordance with the provisions hereof.

The Participating Area established hereunder may be revised from time to time with approval of the Commissioner and the Director whenever as a result of further drilling operations, or otherwise, it appears proper to include additional land then regarded as reasonably proved to be productive of Unitized Substances or determined to be essential for operations hereunder. The Tract Participation of each committed Tract within the Participating Area so enlarged shall be revised to such extent and upon such basis and effective date as may be agreed upon by Working Interest Owners having a combined Phase II Unit Participation prior to the revision of ninety percent (90%) or more, which revised Tract Participation shall be subject to approval by the Commissioner and the Director; provided, however, that notwithstanding any provision hereof which may be construed to the contrary, the Tract Participation of each of the respective committed Tracts which were within the Participating Area prior to the revision shall remain in the same ratio one to another.

It is the intent of this Section that the Participating Area shall represent the area known or reasonably estimated to be productive of Unitized Substances in paying quantities or determined to be essential for operations hereunder; however, regardless of any revision of the Participating Area, nothing herein contained shall be construed as requiring any retroactive adjustment for Unitized Substances produced prior to the effective date of any revision of the Participating Area. No land shall be excluded from the Participating Area on account of depletion of Unitized Substances.

In the absence of agreement at any time between the Unit Operator, the Commission, the Commissioner, and the Director as to the Tracts to be included within any proposed revision of the Participating Area, or in the absence of agreement at any time between Working Interest Owners and the Commissioner and Director, as hereinabove provided, as to the revised Tract Participation to be allocated to the committed Tracts within the Participating Area so enlarged, Working Interest Owners, and each of them, shall have the right to impound, interest free, any and all royalty payments or production affected thereby, except royalties due the United States and the State of New Mexico, which shall be determined and shall be paid or delivered as directed by the Supervisor and Commissioner, respectively, and which shall be held as unearned money until such agreement has been reached, and then applied as earned or returned in accordance with determination of the sum due as Federal or State royalty on the basis of the approved revised Participating Area and Tract Participation of the committed Tracts included therein. Settlement for the Working Interest share of production affected by such absence of agreement, as aforesaid, shall be made as provided in the Unit Operating Agreement.

Whenever it is determined, subject to the approval of the Supervisor as to wells on Federal land and the Commissioner as to wells on State land, that a well drilled hereunder is not capable of producing in paying quantities or is not essential for operations hereunder and inclusion of the Tract upon which it is located within a Participating Area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than Working Interest Owners, be allocated to the Tract upon which the well

is located so long as the well is not included within a Participating Area.

SECTION 14. DEVELOPMENT AND OPERATION OF NON-PARTICIPATING TRACTS:

Any Working Interest Owner or Working Interest Owners having a majority of the Working Interest in any Tract not within the Participating Area and having thereon a regular well location may, with approval of the Supervisor as to Federal land and the Commissioner as to State land, at its sole risk, cost and expense drill or work over a well upon such Tract to test the Unitized Formation, unless within ninety (90) days from receipt of notice from said party of its intention to drill or work over said well, the Unit Operator elects and commences to drill or work over said well in the same manner as other wells drilled or worked over by the Unit Operator under this agreement and the Unit Operating Agreement.

If any well drilled or worked over, as aforesaid, by such Working Interest Owner results in production of Unitized Substances in such quantities that the Tract upon which said well is located may properly be included in the Participating Area, such Participating Area shall be revised to include such Tract as provided in this agreement, and the party paying the cost of drilling or working over such well shall be reimbursed therefor as provided in the Unit Operating Agreement, and such well shall be operated by Unit Operator in accordance with the terms of this agreement and the Unit Operating Agreement.

If any well drilled or worked over, as aforesaid, by such Working Interest Owner results in production of Unitized Substances in quantities insufficient to justify the inclusion in the Participating Area of the Tract upon which said well is located or said Tract is not determined to be essential for operations hereunder, said well may be operated and produced by the Working Interest Owner drilling or working over same, and the production from said well shall be allocated and settlement made therefor in accordance with the last paragraph in Section 13.

SECTION 15. TRACT PARTICIPATION FORMULAS: The percentages of Tract Participation set forth in Exhibit "C" for each Tract within the initial Participating Area have been calculated and determined for Phase I and Phase II hereof in accordance with the following formulas:

Percentage of Tract Participation during Phase I equals:

$$100 \times (\text{times}) \frac{\text{Tract Current Production}}{\text{Unit Area Current Production}}$$

Percentage of Tract Participation during Phase II equals:

$$100 \times (\text{times}) \frac{\text{Tract Ultimate Primary Recovery}}{\text{Unit Area Ultimate Primary Recovery}}$$

The percentages of Tract Participation set forth in Exhibit "C" have been calculated upon the basis of all Tracts within the initial Participating Area being committed to this agreement as of the effective date hereof. In the event less than all of said Tracts are so committed as of said date, Exhibit "C" and the Tract Participations set forth therein shall be revised by Unit Operator in accordance with the provisions of Section 13.

SECTION 16. TRACTS QUALIFIED FOR UNIT PARTICIPATION: As the objective of this Unit Agreement is to have lands in the Participating Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder for a Tract in the Participating Area shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under Section 16 hereof, Tracts Qualified for Participation.

On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the initial Participating Area that are qualified as follows:

- (a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest therein have become parties hereto.
- (b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than seventy-five percent (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 commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 16 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 16 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 16 (a) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 16 (a), as such Unit Participation is determined from the Tract Participations set out in Exhibit "C".

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (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 the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, 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 commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 16 (a) and 16 (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 16 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 16 (a) and 16 (b) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under

Section 16 (a) and 16 (b) as such Unit Participation is determined from the Tract Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit 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 shall set forth in said schedule opposite each such committed Tract the assigned Tract number, lease number and owner of record of such Tract. In the event that less than all of the Tracts within the initial Participating Area have been committed to this agreement on the effective date hereof, Unit Operator shall prepare a revised Exhibit "C" and file copies thereof with the Commissioner and the Supervisor in accordance with the provisions of Section 13.

SECTION 17. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved from the committed Tracts within the Participating Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the initial Participating Area or any revision thereof in accordance with the Tract Participation effective hereunder during the respective periods, either Phase I or Phase II, in which such Unitized Substances were produced as such Tract Participation is shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less

than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto 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 force and 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 the Working Interest or the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participation assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 19 hereof, any extra expenditure incurred

by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind.

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 at not less than the price received by the Working Interest Owner acting as Unit Operator; 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.

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 shall be responsible for making payment therefor to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 18. OIL IN LEASE TANKAGE ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks on the Unitized Land in order to ascertain the amount of merchantable oil above the pipe line connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unitized Land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the

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

SECTION 19. ROYALTY SETTLEMENT: The United States and the State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

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

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

SECTION 20. 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 21. 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 22. 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 23. 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 the lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing or secondary recovery operations performed hereunder upon any Tract of Unitized Land 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 Land pursuant to direction or consent of the Commissioner and the Supervisor or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of Unitized Land.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil 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 which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(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 Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784): "Any [Federal] lease heretofore or hereafter committed to any such [unit] plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

SECTION 24. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon 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 25. 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 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 having a combined Phase II Unit Participation of at least eighty-five percent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy percent (70%) of the Phase II Royalty Interest in said Unit Area; and
- (b) The approval of this agreement by the Commission, the Commissioner, and the Director; and
- (c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Eddy County, New Mexico, by the Unit Operator; and
- (d) The filing with the Commissioner and the Supervisor and in the office of the County Clerk of Eddy County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before July 1, 1966, this agreement shall expire ipso facto on said date (hereinafter called "expiration date") and thereafter be of no further force and effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Phase II Unit Participation of at least sixty-five percent (65%), and the Working Interest Owners having a combined Phase II Unit Participation of at least eighty percent (80%) committed to this agreement have decided to extend said expiration date for a period not to exceed one (1) year (hereinafter called "extended expiration date"). If said expiration date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended expiration date this agreement shall expire ipso facto on said extended expiration date and thereafter be of no further force or effect.

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, and so long thereafter as unitized substances can be produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner and the Director by Working Interest Owners having at least ninety percent (90%) Phase II Unit Participation, as determined from Exhibit "C". Notice of 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.

Unit Operator shall, within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

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

Powers in this Section vested in the Director and Commissioner 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 27. NONDISCRIMINATION: In connection with the performance of work under this agreement, Unit Operator agrees to comply with all of the provisions of Section 202 (1) through (7) inclusive of Executive Order 11246 (30 F.R. 12319), which are incorporated by reference in this agreement.

SECTION 28. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner, the Commission, and the Department, and to appeal from any order issued under the rules and regulations of the Commissioner, the Commission, or the Department, or to apply for relief from any of said rules and regulations or

in any proceedings relative to operations before the Commissioner, the Commission, or the Department, 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.

SECTION 29. 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 30. 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; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 31. 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 32. LOSS OF TITLE: In the event any Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this agreement to meet the conditions of Section 16 because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 16 within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner and Director setting forth the Tracts committed hereto, and if such Tract was within the Participating Area, Unit Operator shall also revise Exhibit "C" to show the Tracts in the Participating Area that remain committed hereto and the Tract Participation of each said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and the Director and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, 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 leases, 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 33. NONJOINDER AND SUBSEQUENT JOINDER: If the owner of any interest in a Tract within the Unit Area fails or refuses to subscribe or consent in writing to this agreement, such Tract shall not be deemed committed to this agreement unless such Tract may be and is qualified as provided in Section 16, Tracts Qualified for Unit Participation, hereof.

Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this agreement by the Director may thereafter be committed hereto upon compliance with the applicable provisions of Section 16, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 13, Tract Participation, and as set forth in Exhibit "C", by the owner or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from the effective date hereof, the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Phase II Unit Participation of not less than ninety percent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such

Royalty Owner. Except as may be otherwise herein provided, subsequent joinders to this agreement, as to Tracts within the Unit Area, shall be effective as of 7:00 A.M. on the first day of the month following the approval thereof by the Commissioner and the Director or the Supervisor.

SECTION 34. 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 35. JOINDER IN DUAL CAPACITY: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 36. 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 hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States or to the State of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 37. 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.

SECTION 38. BORDER AGREEMENTS: Unit Operator, with concurrence of Working Interest Owners having a combined Phase II Unit Participation of sixty-five percent (65%) or more, may, subject to approval of the Commissioner and the Supervisor, 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 39. PERSONAL PROPERTY EXCEPTED: Working Interest Owners have each individually heretofore placed in or on their wells and in or on lands affected by this agreement, various items of personal property which are lease and well equipment, as to all of which Working Interest Owners have the right, as provided in their respective leases, to remove such property from the premises and all of which installations were made with the intention and understanding that all of the same would be and remain personal property and that no part thereof would be or become a part of the realty. Working Interest Owners except from the terms and provisions of this agreement, and hereby sever from said lands, for all purposes, all such lease and well equipment which may be or may hereafter become located in or on the lands or in the wells on the lands affected hereby. To conform their respective investments in such equipment, Working Interest Owners have made a separate agreement with each other with respect thereto.

SECTION 40. NO PARTNERSHIP: 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 41. LIEN OF UNIT OPERATOR: Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

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

SOCONY MOBIL OIL COMPANY, INC.

Date: _____

By: _____
Attorney in Fact