

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
MALJAMAR GRAYBURG UNIT  
COUNTY OF LEA  
STATE OF NEW MEXICO

36 tracts total 3441 A2

92.7 WI committed	18	"	2481 acres Fed
94.6 Royalty	2	"	80 acres St
(assuming USGS & State)	16	"	880 acres Fee

1 Tract (#3)

<b>BEFORE EXAMINED &amp; ENTER</b>	
ON <u>Standard</u>	EXHIBIT NO. <u>1</u>
CASE NO. <u>3506 - 3507</u>	

UNIT AGREEMENT

MALJAMAR GRAYBURG UNIT

LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
MALJAMAR GRAYBURG UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 23rd day of June, 1966, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto."

W I T N E S S E T H :

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the 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 cooperative or unit plan of development or operation of any oil or gas pool, field or like area or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the parties hereto hold sufficient interests in the Maljamar Grayburg Unit covering the land hereinafter described to give reasonably effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation

of the area subject to this Agreement under the terms, conditions and limitations herein set forth.

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their entire respective interests in the Unitized Formation, 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 of 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 in Exhibit "B" and depicted on Exhibit "A" attached hereto is hereby designated and recognized as constituting the Unit Area, containing 3,441.08 acres, more or less, in Lea County, New Mexico. Said land is described as follows:

Township 17 South, Range 32 East,  
N.M.P.M., Lea County, New Mexico

Section 2:  $SW\frac{1}{4}NW\frac{1}{4}$ ,  $NW\frac{1}{4}SW\frac{1}{4}$   
Section 3: All  
Section 4:  $S\frac{1}{2}$ ,  $NW\frac{1}{4}$ ,  $S\frac{1}{2}NE\frac{1}{4}$   
Section 8:  $E\frac{1}{2}$   
Section 9: All  
Section 10: All  
Section 11:  $SW\frac{1}{4}$ ,  $S\frac{1}{2}SE\frac{1}{4}$   
Section 14:  $NW\frac{1}{4}$   
Section 15:  $NE\frac{1}{4}$

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 vertical interval which is equivalent to the interval from 3,792 feet below the surface to 4,130 feet below the surface (as measured from the Kelly bushing), such deeper marker being the base of the Lovington Pay, as shown on the Gamma Ray-Sonic log run in the Chevron Oil Company - A. C. Taylor #3 well located approximately 1,800 feet from the north line and approximately 660 feet from the east line of Section 9, Township 17 South, Range 32 East, N.M.P.M., Lea County, New Mexico.
- (h) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquids or liquefiable hydrocarbons within or produced from the Unitized Formation.
- (i) "Working Interest" is defined as the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, or otherwise held.
- (j) "Working Interest Owner" is defined as a party hereto who owns a Working Interest including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing Unitized Substances from and operating the Unitized Formation hereunder. The owner of oil and gas rights that are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.
- (k) "Royalty Interest" is defined as an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contract, or any other payment or burden which does not carry with it either the right to search for and produce Unitized Substances or the obligation to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and operating thereof hereunder. For the purposes of Sections 13, 22 and 30 a royalty interest shall include the lessee of record interest as to Federal leases.
- (l) "Royalty Owner" is defined as the owner of a Royalty Interest.
- (m) "Unit Operating Agreement" is defined as the agreement styled "Unit Operating Agreement, Maljamar Grayburg Unit, Lea County, New Mexico," entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, infra.
- (n) "Unit Operator" means the Working Interest Owner herein designated to operate the Unitized Formation, acting as operator and not as a Working Interest Owner.
- (o) "Tract" is defined as each parcel of land described as such and given a tract number in Exhibit "B".

- (p) "Tract Participation" means the percentage shown on Exhibit "B", as may be appropriately revised, for allocating Unitized Substances produced from unitized land to a Tract of said land under this Agreement.
- (q) "Unit Participation" of each Working Interest Owner in unitized land means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract of unitized land by the Tract Participation of such Tract.

SECTION 3. EXHIBITS: Exhibit "A" attached hereto shows, to the extent known to the Unit Operator, the boundaries and identity of Tracts and leases in said Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage, the ownership, and the Tract Participation of 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 owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes render such revision necessary, and the required number of copies of such revision shall be filed with the Commissioner and the Supervisor.

SECTION 4. EXPANSION: The Unit Area may when practicable be expanded to include therein any additional Tract or Tracts (as used in this Section, the terms "Tract" and "Tracts" mean not only the parcels of land described as such and given tract numbers in Exhibit "B", but also any other parcels of land proposed to be admitted to the Unit Area) 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 of the proposed expansion to each Working Interest Owner in the Unit and in the Tract or Tracts proposed to be included in the Unit, setting out the basis for admission, the Tract Participation to be assigned to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise), if owners of eighty-five percent (85%) of the Working Interest in unitized land (on the basis of Unit Participation) have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall:
  - (1) After preliminary concurrence by the Director and the Commissioner, prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice; and
  - (2) Deliver copies of said notice to the Commissioner, Commission, the Supervisor, each Working Interest Owner (mailing copy of such notice to the last known address of each such Working Interest Owner) and each lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

- (3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above, with the Commissioner, Commission, and Supervisor the following: (a) Comprehensive statement as to mailing such notice of expansion; (b) An application for such expansion in sufficient number for approval; (c) An instrument containing the appropriate joinders in compliance with the participation requirements of Section 13, infra; and (d) copies of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner, Commission, and the Director become effective as of the date prescribed in the notice thereof.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this Agreement as to the Unitized Formation shall constitute the land referred to herein as "unitized land" or "land subject to this Agreement". All Unitized Substances in and produced from the "unitized land" are hereby unitized under the terms of this Agreement. Surface rights of ingress and egress shall be maintained for the benefit of the Unit.

SECTION 6. UNIT OPERATOR: Chevron Oil Company, a California corporation, is hereby designated as Unit Operator and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances from the unitized land 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 7. RESIGNATION 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 until a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator.

The resignation 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 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, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns hereunder for any liability or duties accruing or performable by it prior to the effective date of such resignation.

SECTION 8. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator wishes to resign as Unit Operator, the Working Interest Owners shall by affirmative vote of at least fifty percent (50%) of their voting interest, based upon Unit Participation as shown on Exhibit "B", select a successor Unit Operator; provided, however, that if fifty percent (50%) or more but less than seventy-five percent (75%) of the voting

interest (based on Unit Participation) is owned by one party to this Agreement, a concurring vote of at least one Working Interest Owner shall be required to select a new Unit Operator. Such selection shall not become effective until (a) a Unit Operator so elected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and filed with the Supervisor. If there is any substantial default or failure in the performance of the Unit Operator's duties and obligations for a period of six (6) months, the Commissioner and the Director, at their election, may declare this Agreement terminated.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: If the Unit Operator is not the sole owner of Working Interests, 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 for such other rights and obligations as between Unit Operator and Working Interest Owners as may be agreed upon by the Unit Operator and Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. The required number of copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner and the Supervisor, prior to approval of this Agreement.

SECTION 10. 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, by primary and secondary means, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect the greatest ultimate recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Supervisor, the Commission, and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, and 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. After commencement of secondary operations, Unit Operator shall furnish the Commission, the Commissioner, and the Supervisor monthly injection and production reports for each well on the unitized land. The Working Interest Owners, the Supervisor, the Commission, and the Commissioner shall be furnished periodic reports on the progress of the plan of operation and any



revisions or changes thereto; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Supervisor, the Commission, and the Commissioner.

The initial plan of operation shall be filed with the Supervisor, the Commission, and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor, the Commission, and the Commissioner may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

SECTION 12. TRACT PARTICIPATION: In Exhibit "B" attached hereto, there are listed and numbered the various Tracts within the Unit Area and set forth opposite each Tract is a figure which represents the Tract Participation of such Tract. The Tract Participation of each Tract was determined as follows:

The estimated remaining recoverable oil by both primary and secondary means from the Unitized Formation underlying such tract, computed as of July 1, 1965, divided by the estimated remaining recoverable oil by both primary and secondary means from the Unitized Formation underlying the entire Unit Area computed as of the same date and the quotient thus obtained being converted into a percentage.

The percentages of participation set forth opposite each Tract in Exhibit "B" were calculated on the basis of one hundred percent (100%) Tract commitment. If the Unit Agreement is approved with less than one hundred percent (100%) Tract commitment, said percentages of participation shall be revised to fit the commitment status as of the effective date hereof, and thereafter, as needed pursuant to Section 14 (Allocation of Unitized Substances).

SECTION 13. TRACTS QUALIFIED FOR PARTICIPATION: As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under this Section.

On and after the effective date hereof the Tracts within the Unit Area which shall be entitled to participate (as provided in Section 12 hereof) in the production of Unitized Substances therefrom shall be those Tracts more particularly described in said Exhibit "B" that corner or have a common boundary (Tracts separated only by a public highway or a railroad right-of-way shall be considered to have a common boundary) and otherwise qualify as follows:

- (a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have become parties to this Agreement.
- (b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (1) all Working Interest Owners in such Tract have joined in a request for the acceptance of such Tract, and as to which (2) eighty percent (80%) of

the combined voting interests of Working Interest Owners in all Tracts that meet the requirements of (a) have voted in favor of the acceptance of such Tract. For the purpose of this Subsection (b), the voting interest of a Working Interest Owner shall be equal to the ratio that its Unit Participation attributable to Tracts that qualify under (a) above bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under (a) above.

- (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) Eighty percent (80%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and 13 (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

Unit Operator shall, when submitting this Agreement for final approval by the Commissioner and the Director, file therewith a schedule of those Tracts which have been committed and made subject to this Agreement and are entitled to Tract Participation hereunder. Said schedule shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the Tract Participation of such Tract which shall be computed according to the participation formula or basis set out in Section 12 (Tract Participation) above. This schedule of participation shall be a part of Exhibit "B" and upon approval thereof by the Commissioner and the Director shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until effective date of a new schedule approved by the Commissioner and the Director.

SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on said unitized land for drilling, operating, camp and other production or development purposes and for pressure maintenance or unavoidably lost) shall be apportioned among and allocated to the Tracts of unitized land in accordance with the respective Tract Participations then effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the appropriate schedule of participation in Exhibit "B". The amount of Unitized Substances so allocated to each Tract (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 of unitized land shall be distributed among, or accounted for to the parties executing, consenting to or

ratifying this Agreement entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tracts, or in the proceeds thereof, had this Agreement not been entered into; and with the same legal force and effect.

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 and the Royalty Interest in any Tract are or hereafter become 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 of unitized land 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 on unitized land 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 unitized land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 15 hereof, any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. If any party hereto shall fail to take in kind or separately dispose of its proportionate share of the production from the unitized land, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning such 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 for its proportionate share; provided, however, all contracts of sale by the Unit Operator of any other party's share of said production 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 (1) year, and further provided, that Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days' notice of such intended sale. The net proceeds, if any, 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 of unitized land, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all Royalty on the lease or leases and Tracts contributed by it and received into the Unit, and each such party shall hold each other party hereto harmless against all claims, demands and causes of action for such Royalty on the lease or leases and Tracts contributed by it and received into the Unit.

If, after the effective date of this Agreement, there is any Tract (or Tracts) subsequently committed to the Unit Area, as provided in Section 4 (Expansion) hereof, or any Tract (or Tracts) within the Unit Area not committed hereto as of the

effective date hereof but which is subsequently committed hereto under the provisions of Section 30 (Nonjoinder and Subsequent Joinder), or if any Tract is excluded from the Unit Area, as provided for in Section 29 (Loss of Title), the Tract Participations as shown in Exhibit "B", subject to Section 12 (Tract Participation) or Section 30 (Nonjoinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Commissioner, and the Director to show the new Tract Participations of all the then effectively committed Tracts in the Unit Area; and the revised schedules, upon approval by the Commissioner and the Director, shall govern all the allocation of production of Unitized Substances from unitized land from and after the effective date thereof until a new schedule is approved by the Commissioner and the Director.

**SECTION 15. ROYALTY SETTLEMENT:** The State of New Mexico and the United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract of unitized land, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If natural gas (as opposed to liquefied petroleum gas) obtained from lands or formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan approved pursuant to Section 11 (Plan of Operations), a like amount of gas, less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation royalty free as to dry gas but not as to the products extracted therefrom subject to a plan approved by the Supervisor. If liquefied petroleum gas (as opposed to natural gas) obtained from lands or formations not subject to this Agreement is introduced into the Unitized Formation for the purposes and under the conditions mentioned in the preceding sentence, then part or all of such liquefied petroleum gas may be withdrawn royalty free pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor and the Commissioner. The rights of withdrawal in this Section contained shall terminate as of the effective date of termination of this Unit Agreement.

All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid, at the rate prescribed in the leases, on the basis of all Unitized Substances allocated to the respective Tract or Tracts of unitized land, in lieu of actual production from such Tract or Tracts; provided, that for federal leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though the unitized land were a single consolidated lease.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

SECTION 16. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof, due under their leases. Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico. 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 17. CONSERVATION: Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 18. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from the unitized land by wells on land not subject to this Agreement.

SECTION 19. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

- (a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately-owned Tract subject to this Agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.
- (b) Drilling, producing or secondary recovery operations performed hereunder upon any Tract of unitized 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 lands 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 embracing lands of the State of New Mexico which is made subject to this Agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.
- (g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Provided, however, that notwithstanding any of the provisions of this Agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this Agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.
- (h) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of 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 non-unitized 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 20. MATHEMATICAL ERRORS: It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical or clerical errors which might exist in this Agreement upon approval of the Commissioner and the Supervisor.

SECTION 21. 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 22. EFFECTIVE DATE AND TERM: This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock A.M. of the first day of the month next following:

- (a) The execution or ratification of this Agreement (and the Unit Operating Agreement unless all of the Working Interest is owned by one party) by Working Interest Owners owning a combined Unit Participation of at least eighty percent (80%), and the execution or ratification of this Agreement by Royalty Owners owning a combined interest of at least sixty-five percent (65%) of the Royalty Interest, in the Unit Area; and,
- (b) The approval of this Agreement by the Commissioner, the Director, and the Commission; and
- (c) The filing for record in Lea County, New Mexico, by Unit Operator, of at least one counterpart of this Unit Agreement.

If (a), (b), and (c) above are not accomplished on or before July 1, 1967, this Agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Unit Participation of at least sixty percent (60%), and the Working Interest Owners owning a combined Unit Participation of at least eighty-five percent (85%) committed to this Agreement have decided to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a), (b), and (c) are not accomplished on or before said extended expiration date, this Agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect. For the purposes of this Section, ownership shall be computed on the basis of Unit Participation as determined from the original Exhibit "B" attached to the Unit Agreement.

Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for record a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date and the location of the governmental agency offices where copies of this Agreement are filed.

The term of this Agreement shall be for and during the time that Unitized Substances are produced in quantities sufficient to pay for the cost of producing same from wells on the unitized land 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. Termination under this paragraph shall be effective as of the first day of the month after the Unit Operator



determines, on confirmatory data satisfactory to the Commissioner and Director, that the unit is no longer paying.

This Agreement may be terminated at any time for any other reason with the approval of the Commissioner and the Director by Working Interest Owners owning eighty-five percent (85%) Unit Participation. Notice of any such termination shall be given by Unit Operator to all parties hereto.

Upon termination of this Agreement, unit operations shall cease, and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts.

If not otherwise covered by the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with unit operations.

**SECTION 23. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION:** All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and, within the limits made or fixed by the Commission, to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately owned lands subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this Section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.

**SECTION 24. 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 25. APPEARANCES:** Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner, the Department, and the Commission, and to appeal from any order issued under the rules and regulations of the Commissioner, the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner, the Department, or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

**SECTION 26. 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 27. NO WAIVER OF CERTAIN RIGHTS: Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

SECTION 28. 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 29. LOSS OF TITLE: In the event title to any Tract of unitized land shall fail so as to render the Tract inoperable under this Agreement and the true owner cannot be induced to join in this Unit Agreement, such Tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract of unitized land is in dispute, Unit Operator, at the discretion of Working Interest Owners shall either:

- (a) require that the party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid, furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or
- (b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the right or title thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto;

provided, however, 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 30. NONJOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a Tract within the Unit Area fails or refuses to subscribe, ratify, or consent in writing to this Agreement, the Working Interest Owner in that

Tract who has executed or ratified this Agreement may withdraw said Tract from this Agreement by written notice to the Director, the Commissioner, and Unit Operator prior to the effective date of this Agreement. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to 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 such interest to be regarded as effectively committed to this Unit Agreement, unless all of the Working Interest is owned by one party.

Any oil or gas interest in the lands in the Unit Area not committed hereto prior to submission of this Agreement to the Commissioner and the Director for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 13 (Tracts Qualified for Participation) hereof, at any time up to the effective date hereof on the same basis of participation as provided in said Section 13 by the owner or owners thereof subscribing, ratifying, 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, however, after final approval by the Commissioner of this Agreement, any commitment of State land must be approved by the Commissioner.

It is understood and agreed, however, that from and after 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 owners of seventy-five percent (75%) of the Working Interest in the unitized land (based upon Unit Participation), subject to the approval of the Commissioner and the Director. Such joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement and where State land is involved, such joinder must be approved by the Commissioner. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this 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 proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 A.M. as of the first day of the month following the filing with the Commissioner and the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Commissioner or the Director is duly made within sixty (60) days after such filing. Notwithstanding any provision to the contrary, any commitment of State of New Mexico land must be approved by the Commissioner.

SECTION 31. 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 32. 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, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 33. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto and the Commission agree that all powers and authority vested in the Commission in and by any provisions of this Agreement are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

SECTION 34. LIMITATION OF APPROVALS: Notwithstanding anything herein contained to the contrary, if no Federal lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Department, the Secretary, the Director, or the Supervisor, and it shall not be necessary to file any instrument hereunder with said officers or agencies unless and until Federal lands are so committed to this Agreement; likewise, if no State lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Commissioner, and it shall not be necessary to file any instrument hereunder with said officer unless and until State lands are so committed to this Agreement.

SECTION 35. BORDER AGREEMENTS: Subject to the approval of the Supervisor and the Commissioner, the Unit Operator, with concurrence of owners of sixty-five percent (65%) of the Working Interest in the unitized land (based upon Unit Participation) may enter into a border protection agreement or agreements with the Working Interest Owners of adjacent lands along the boundaries of the unitized land 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 36. 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. This Agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale, or marketing of Unitized Substances.

SECTION 37. 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 in such tanks, above the pipeline connections, as of 7:00 A.M. on the effective date hereof. All such oil as is a part of the prior allowable of the well or wells from which the same was produced shall be and remain the property of the Working Interest Owners entitled thereto the same as if the Unit had not been formed, and such Working Interest Owners shall

promptly remove said oil from the unitized land. Any such oil not so removed may be sold by the Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms and provisions of the applicable lease or leases and other contracts. All such oil and gas 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.

SECTION 38. PERSONAL PROPERTY EXCEPTED: All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands subject to this Agreement shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 39. WAIVER OF RIGHT TO PARTITION: Each party hereto covenants that, during the existence of this Agreement, it will not resort to any action to partition the Unit Area as to the Unitized Formation or the personal property and equipment used in the operation thereof, and to that extent waives the benefits of all laws authorizing such partition.

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

CHEVRON OIL COMPANY

By \_\_\_\_\_  
Attorney in Fact

Date: \_\_\_\_\_

By \_\_\_\_\_  
Attorney in Fact

Address: P. O. Box 1249  
Houston, Texas 77001

UNIT OPERATOR AND WORKING INTEREST OWNER

PHILLIPS PETROLEUM COMPANY

ATTEST:

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

\_\_\_\_\_  
Secretary

Date: \_\_\_\_\_

Address: Bartlesville, Oklahoma 74004

Date: \_\_\_\_\_

\_\_\_\_\_  
Bert H. Murphy

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
Thomas F. Welch

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
Harold C. Porter

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
Talbot C. Wildman

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
Roy H. Elliott

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
George Westall

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
Charles A. Wier

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
Lloyd McGee

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
S. J. Iverson, Jr.

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
W. C. Davis

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
V. S. Welch

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
Otha N. Giles

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

\_\_\_\_\_  
Tom Boyd

Date: \_\_\_\_\_

Address: c/o Cima Capitan Incorporated  
P. O. Drawer 1343  
Artesia, New Mexico

WORKING INTEREST OWNERS

ATTEST:

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

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

ATTEST:

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

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

ATTEST:

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

\_\_\_\_\_  
Secretary  
Date: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

ROYALTY INTEREST OWNERS

STATE OF TEXAS       §  
                          §  
COUNTY OF HARRIS   §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1966, by \_\_\_\_\_ and \_\_\_\_\_, Attorneys in Fact for CHEVRON OIL COMPANY, a California corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public

My Commission Expires  
\_\_\_\_\_

STATE OF \_\_\_\_\_ §  
                          §  
COUNTY OF \_\_\_\_\_ §

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

\_\_\_\_\_  
Notary Public

My Commission Expires  
\_\_\_\_\_

STATE OF \_\_\_\_\_ §  
                          §  
COUNTY OF \_\_\_\_\_ §

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

\_\_\_\_\_  
Notary Public

My Commission Expires  
\_\_\_\_\_



STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

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

\_\_\_\_\_  
Notary Public

My Commission Expires  
\_\_\_\_\_

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

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

\_\_\_\_\_  
Notary Public

My Commission Expires  
\_\_\_\_\_

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

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

\_\_\_\_\_  
Notary Public

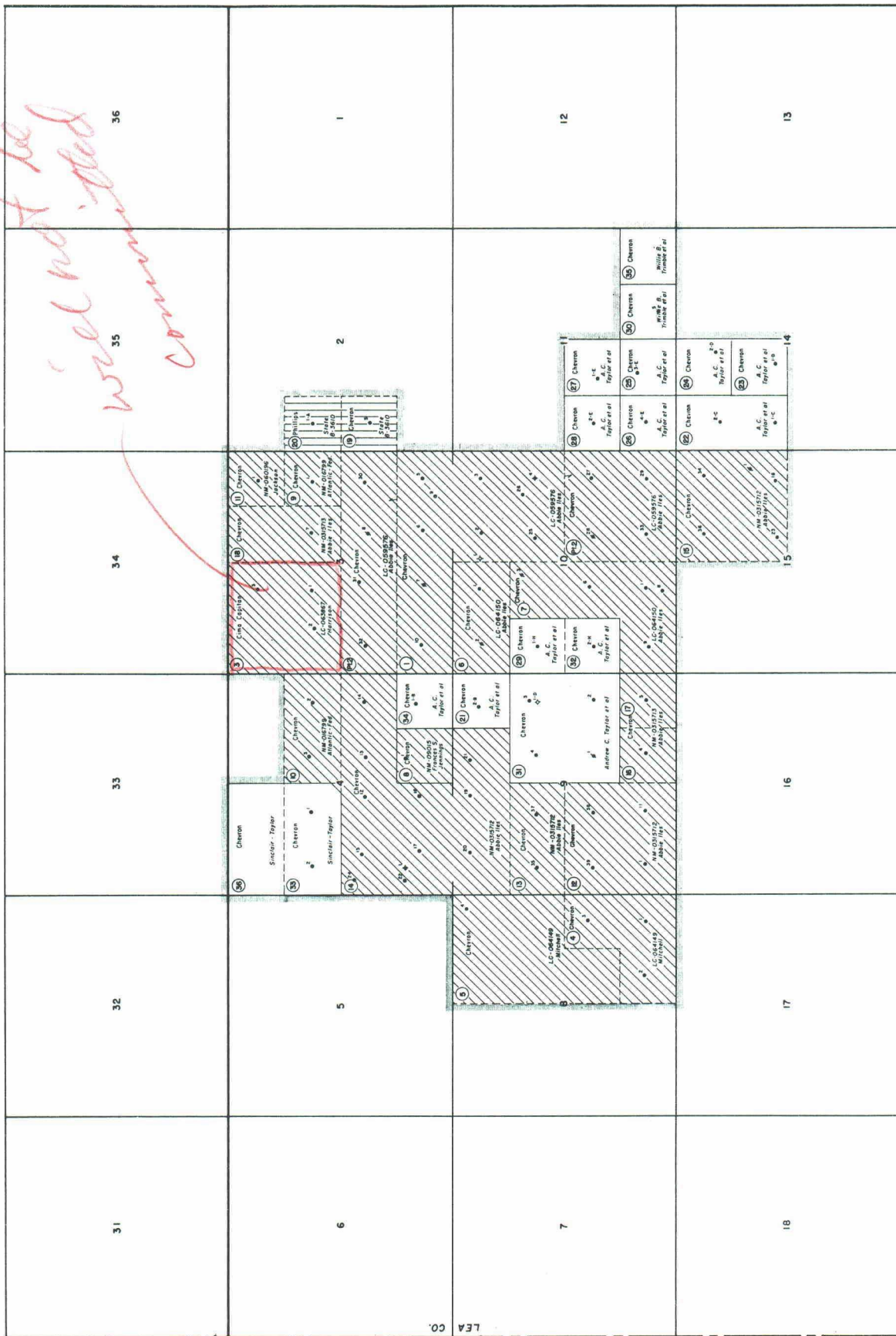
My Commission Expires  
\_\_\_\_\_

R 32 E

T 17 S

EXHIBIT A  
MAP OF UNIT AREA  
MALJAMAR GRAYBURG UNIT  
LEA COUNTY, NEW MEXICO

0 1000 2000 4000 FT.



LEA CO. EDDY CO.

**EXHIBIT B**  
**SCHEDULE OF OWNERSHIP OF TRACTS**  
**MALJAMAR GRAYBURG UNIT**  
**LEA COUNTY, NEW MEXICO**

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Serial No. and/or Date of Lease</u>	<u>Royalty Owner and Amount</u>	<u>Lessee of Record</u>	<u>Overriding Royalty Owner and Amount</u>	<u>Working Interest Owner and Amount</u>	<u>Per Cent Tract Participation</u>
1	Federal Lands T17S-R32E (down to 4350') Sec. 3; S/2 S/2 Sec. 10; NE/4	320	USA-LC 059576 (Abbie Iles) (out of LC 058150 exchange) 6-1-41	USA-Step scale 12.5% to 32%	Chevron Oil Company	1) Edith M. Malott, Executrix of Estate of James Malott, Dec'd, Globe, Ariz. 0.666667% 2) Valley National Bank of Phoenix, Arizona, under Trust No. 3069 0.333333% 3) Edith A. Hover 1.000000% 4) Abbie Iles Farnsworth 0.750000% 5) Wade H. Hover 0.750000%	Chevron Oil Company- 100%	10.211169
2	T17S-R32E (down to 4350') Sec. 3; N/2 S/2 Sec. 10; SE/4	320	USA-LC 059576 (Abbie Iles) (out of LC 058150 exchange) 6-1-41	USA - 12.5%	Chevron Oil Company	1) Edith M. Malott, Executrix of Estate of James Malott, Dec'd, Globe, Ariz. 0.666667% 2) Valley National Bank of Phoenix, Arizona, under Trust No. 3069 0.333333% 3) Edith A. Hover 1.000000% 4) Abbie Iles Farnsworth 0.750000% 5) Wade H. Hover 0.750000%	Chevron Oil Company- 100%	8.451993

Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
3	Federal Lands T17S-R32E Sec. 3; Lots 3 & 4 & S/2 NW/4	160.29	USA-LC 063867 1-1-45	USA-All outside 12.5%	H. L. Brinson	R. L. Harrison 5% H. L. Brinson 11%	(Operated By Cima Capitan, Inc.) Bert H. Murphy 5.6250% Thomas F. Welch 5.6250% Harold C. Porter 5.6250% Talbot C. Wildman 1.5625% Roy H. Elliott 3.1250% George Westall 3.1250% Charles A. Wier 1.5625% Lloyd McGee 1.5625% S. J. Iverson, Jr. 3.1250% W. C. Davis 1.5625% V. S. Welch 37.5000% Otha H. Giles 10.0000% Tom Boyd 20.0000%	7.658472
4	T17S-R32E Sec. 8; S/2 SE/4; NE/4 SE/4	120	USA-LC 064149 (Mitchell)	USA-Sliding scale under Schedule D	Chevron Oil Company	1) Edith A. Hover, 1541 The Alameda, San Jose 26, Calif. 1.875% 2) J. H. Morris, Agent for Taubman Group, 1615 First National Bldg., Tulsa, Okla. 3.125%	Chevron Oil Company- 100%	2.583149

Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
5	Federal Lands T17S-R32E Sec. 8; NE/4; NW/4 SE/4	200	USA-LC 064149 (Mitchell)	USA - 12.5%	Chevron Oil Company	1) Edith A. Hover, 1541 The Alameda, San Jose 26, Calif. 1.875% 2) J. H. Morris, Agent for Taubman Group, 1615 First National Bldg., Tulsa, Okla. 3.125%	Chevron Oil Company- 100%	0.649791
6	T17S-R32E (down to 4350') Sec. 10; N/2 NW/4	80	USA-LC 064150	USA-Step scale 12.5% to 32%	Chevron Oil Company	1) Abbie Iles Farnsworth 0.8125% 2) Wade H. Hover 0.7500% 3) Edith A. Hover 1.8750%	Chevron Oil Company- 100%	4.709810
7	T17S-R32E (down to 4350') Sec. 10; E/2 SW/4; SE/4 NW/4; SW/4 SE/4	160	USA-LC 064150	USA - 12.5%	Chevron Oil Company	1) Abbie Iles Farnsworth 0.8125% 2) Wade H. Hover 0.7500% 3) Edith A. Hover 1.8750%	Chevron Oil Company- 100%	3.373587
8	T17S-R32E (down to and including 4500') Sec. 4; SW/4 SE/4	40	USA-NM 09015 2-1-53	USA - 12.5%	Chevron Oil Company	Phillip L. White 0.1136363% Joanna D. White 0.1136363% James T. Jennings, Jr. 0.2272727%	Chevron Oil Company- 100%	1.813598
9	T17S-R32E (down to 4549') Sec. 3; SE/4 NE/4	40	USA-NM 016799 2-1-55	USA-Schedule B 12.5% to 25%	Chevron Oil Company	The Atlantic Refining Co. 5.46875%	Chevron Oil Company- 100%	1.160145
10	T17S-R32E (down to 4549') Sec. 4; S/2 NE/4	80	USA-NM 016799 2-1-55	USA-Schedule B 12.5% to 25%	Chevron Oil Company	The Atlantic Refining Co. 5.46875%	Chevron Oil Company- 100%	2.774001

Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
11	Federal Lands <u>TL7S-R32E</u> (down to 4505') Sec. 3; Lot 1 (NE/4 NE/4)	40.41	USA-NM 060196 11-1-59	USA - 12.5%	Chevron Oil Company	Bonnie R. Etz 2.343750% Annie Mae Jackson 0.781250% J. L. McGrew 2.734375%	Chevron Oil Company- 100%	0.247267
12	<u>TL7S-R32E</u> Sec. 9; SW/4	160	USA-NM 0315712 6-1-41	USA-Step Scale 12.5% to 32%	Chevron Oil Company	1)Edith M. Malott, Executrix of Estate of James Malott, Dec'd. 0.666667% 2)Valley National Bank of Phoenix, Arizona, under Trust No. 3069 0.333333% 3)Edith A. Hover 1.000000% 4)Abbie Iles Farnsworth 0.750000% 5)Wade H. Hover 0.750000%	Chevron Oil Company- 100%	1.127656
13	<u>TL7S-R32E</u> Sec. 9; S/2 NW/4	80	USA-NM 0315712 6-1-41	USA - 12.5%	Chevron Oil Company	1)Edith M. Malott, Executrix of Estate of James Malott, Dec'd. 0.666667% 2)Valley National Bank of Phoenix, Arizona, under Trust No. 3069 0.333333% 3)Edith A. Hover 1.000000% 4)Abbie Iles Farnsworth 0.750000% 5)Wade H. Hover 0.750000%	Chevron Oil Company 100%	2.689018

Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
14	Federal Lands T17S-R32E (down to 4350') Sec. 4; N/2 S/2; S/2 SW/4 Sec. 9; N/2 NW/4; NW/4 NE/4	360	USA-NM 0315712 6-1-41	Outside USA - 12.5%	Chevron Oil Company	1)Edith M. Malott, Executrix of Estate of James Malott, Dec'd. 0.666667% 2)Valley National Bank of Phoenix, Arizona under Trust No. 3069 0.333333% 3)Edith A. Hover 1.000000% 4)Abbie Iles Farnsworth 0.750000% 5)Wade H. Hover 0.750000% 6)Philip L. White 0.113636% 7)Joanna D. White 0.113636% 8)James T. Jennings, Jr. 0.227272%	Chevron Oil Company- 100%	14.505675
15	Federal Lands T17S-R32E (down to 4350') Sec. 15; NE/4	160	USA-NM 0315713 6-1-41	Outside USA - 12.5%	Chevron Oil Company	1)Edith M. Malott, Executrix of Estate of James Malott, Dec'd. 0.666667% 2)Valley National Bank of Phoenix, Arizona, under Trust No. 3069 0.333333% 3)Edith A. Hover 1.000000% 4)Abbie Iles Farnsworth 0.750000% 5)Wade H. Hover 0.750000%	Chevron Oil Company- 100%	4.504609
16	T17S-R32E Sec. 9; SW/4 SE/4 (down to 4350')	40	USA-NM 0315713 6-1-41	USA-Step Scale 12.5% to 32%	Chevron Oil Company	1)Abbie Iles Farnsworth 0.8125% 2)Wade H. Hover 0.7500% 3)Edith A. Hover 1.8750%	Chevron Oil Company- 100%	1.149817

Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
17	Federal Lands T17S-R32E (down to 4350') Sec. 9; SE/4 SE/4	40	USA-NM 0315713 6-1-41	USA - Outside 12.5%	Chevron Oil Company	1) Abbie Iles Farnsworth 0.8125% 2) Wade H. Hover 0.7500% 3) Edith A. Hover 1.8750%	Chevron Oil Company - 100%	1.519165
18	T17S-R32E (down to 4350') Sec. 3; Lot 2 SW/4 NE/4	80.3	USA-NM 0315713 6-1-41	USA - 12.5%	Chevron Oil Company	Abbie Iles Farnsworth 0.750000% Wade H. Hover 0.750000%	Chevron Oil Company - 100%	1.733943
18 Federal Tracts		2481 Acres or 72.10% of Unit Area						
19	State Lands T17S-R32E (down to 5000') Sec. 2; NW/4 SW/4	40	New Mexico State Lease No. B-3610	Commissioner of Public Lands, State of New Mexico - 12.5%	Chevron Oil Company		Chevron Oil Company - 100%	1.217803
20	T17S-R32E Sec. 2; SW/4 NW/4	40	New Mexico State Lease No. B-3610	Commission of Public Lands, State of New Mexico - 12.5%	Phillips Petroleum Company		Phillips Petroleum Company - 100%	1.550053
2 State Tracts		80 Acres or 2.32% of Unit Area						
21	Fee Lands T17S-R32E (down to and including Lovinton Sand) Sec. 9; NE/4 NE/4	40	1) Andrew C. Taylor et al Lease  1) Ella Belle Holman, Box 1295, Maljamar, New Mexico 2.832031%  1) Bette Taylor, Box 1328, Maljamar, N. Mex. 2.832031%	1) Zachary L. Taylor, Box 205, Tatum, New Mexico 5.664063% 1) Ella Belle Holman, Box 1295, Maljamar, New Mexico 2.832031%	Chevron Oil Company		Chevron Oil Company - 96.875% Unleased - 3.125%	0.593441



Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
21	Fee Lands							
(Contd.)								
			2)Albuquerque National Bank, Tr. Lease	2)Albuquerque National Bank, Tr. 0.271260%	Chevron Oil Company			
			3)Selma E. Andrews Lease	3)Selma E. Andrews 0.314677%	Unleased			
				4)J. H. Campbell	Unleased			
				3.125000% (Unleased)				
			5)Bank of California Trustee Lease	5)Bank of California, Tr. 0.1146484%				
			6)David Bond Kyte Lease	6)David Bond Kyte 0.1146484%				
			7)Marilee I. Kyte Lease	7)Marilee I. Kyte 0.292969%				
22	T17S-R32E Sec. 14; W/2 NW/4	80	1)Andrew C. Taylor et al. Lease	1)Zachary L. Taylor 2.929688%	Chevron Oil Company		Chevron Oil Company - 96.875%	2.536572
				1)Ella Belle Holeman 1.464844%			Unleased - 3.125%	
				1)Bette Taylor 1.464844%	Unleased			
				2)J. H. Campbell	Unleased			
				3.125000% (Unleased)				
			3)Gardner Pet. Co. Lease No. 2	3)Dorothy Dell Graeber, 1355 E. 21st St., Tulsa, Okla. 1.041667%	Chevron Oil Company			
				3)Goff Oil Co., Box 1749, Ardmore, Oklahoma 3.645833%				
			4)Bob Bradshaw Lease	4&5)Kiska Oil Co. 1.562500%				
			5)Kiska Oil Co. Lease					

Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
23	Fee Lands T17S-R32E Sec. 14; SE/4 NW/4	40	1)Andrew C. Taylor et al Lease  2)Albuquerque National Bank, Tr. Lease 3)Selma E. Andrews Lease 4)Gardner Pet. Co. Lease 5)Bob Bradshaw Lease 6)Kiska Oil Co. Lease	1)Zachary L. Taylor 2.929688% 1)Ella Belle Holeman 1.464844% 1)Bette Taylor 1.464844% 2)Albuquerque National Bank, Tr. Bank, Tr. 0.271260% 3)Selma E. Andrews 0.314677% 4)Dorothy Dell Graeber 1.041667% 4)Goff Oil Co. 3.645833% 5&6)Kiska Oil Co. 1.562500%	Chevron Oil Company	Chevron Oil Company-100%	1.083040	
24	T17S-R32E Sec. 14; NE/4 NW/4	40	1)Andrew C. Taylor et al Lease	1)Zachary L. Taylor 6.250000% 1)Ella Belle Holeman 3.125000% 1)Bette Taylor 3.125000%	Chevron Oil Company	Chevron Oil Company-100%	0.569679	
25	T17S-R32E (to base of Lovington Sand) Sec. 11; SE/4 SW/4	40	1)Andrew C. Taylor et al Lease	1)Zachary L. Taylor 3.125000% 1)Ella Belle Holeman 1.562500% 1)Bette Taylor 1.562500%	Chevron Oil Company	Chevron Oil Company-100%	1.114549	

Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
25 (Cont'd)	<u>Fee Lands</u>							
			2) Gardner Pet. Co.	2) Dorothy Dell Graeber 3.125%	Chevron Oil Company			
			3) Kiska Oil Co. Lease	2) Coff Oil Co. 1.562500%				
			4) Bob Bradshaw Lease	3) Kiska Oil Co. 0.781250%				
				4) Bob Bradshaw 0.781250%				
26	TL7S-R32E (to base of Lovington Sand) Sec. 11; SW/4 SW/4	40	1) A. C. Taylor et al Lease	1) Zachary L. Taylor 5.859375%	Chevron Oil Company		Chevron Oil Company- 100%	1.664224
			2) J. W. Wilkinson son Lease	1) Ella Belle Holean 2.929687%				
			3) Cash Ramey Lease	1) Bette Taylor 2.929688%				
				2) J. W. Wilkinson 0.390625%				
				3) Cash Ramey 0.390625%				
27	TL7S-R32E (to base of Lovington Sand) Sec. 11; NE/4 SW/4	40	1) A. C. Taylor et al Lease	1) Zachary L. Taylor 5.664063%	Chevron Oil Company		Chevron Oil Company- 100%	2.111135
			2) Albuquerque National Bank Tr. Lease	1) Ella Belle Holean 2.832031%				
				1) Bette Taylor 2.832031%				
				2) Albuquerque National Bank, Tr. under Will of F. A. Andrews, Dec'd. 0.180840%				
			3) Selma E. Andrews Lease No. 2	3) Selma E. Andrews 0.209785%				
			4) Bruce Sullivan Lease	4) Fern Sullivan 0.7812500%				

Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
28	Fee Lands T17S-R32E (down to base of Lovington Sand) Sec. 11; NW/4 SW/4	40	1) A. C. Taylor et al Lease	1) Zachary L. Taylor 5.664063% 1) Ella Belle Holean 2.832031% 1) Bette Taylor 2.832031% 2) Albuquerque Nat'l Bank, Tr. 0.180840% 3) Selma E. Andrews 0.209785% J. H. Campbell 3.125000% 4) Fern Sullivan 0.390625%	Chevron Oil Company		Chevron Oil Company- 96.875% Unleased- 3.125%	1.767020
29	T17S-R32E (down to base of Lovington Sand) Sec. 10; SW/4 NW/4	40	1) A. C. Taylor et al Lease  2) Albuquerque National Bank, Trustee Lease Tr. Lease  Unleased 3) Selma E. Andrews Lease Unleased NPRI* Unleased NPRI*	1) Zachary L. Taylor 5.664063% 1) Ella Belle Holean 2.832031% 1) Bette Taylor 2.832031% 2) Albuquerque National Bank, Trustee under Will of F. A. Andrews, Dec'd. 0.271260% J. H. Campbell 3.125000% 3) Selma E. Andrews 0.314677% Heirs of C. H. Kyte, Dec'd. 1.562500% Marilee I. Kyte 1.562500%	Chevron Oil Company          Chevron Oil Company          Unleased  Chevron Oil Company          Unleased  Unleased  Unleased		Chevron Oil Company- 93.750% Unleased- 6.250%	0.005360

\* Leasing Rights owned by Heirs of Bruce Sullivan.

Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
30	Fee Lands <del>TL7S-R32E</del> (down to base of Lovington Sand) Sec. 11; SW/4 SE/4	40	1)Willie B. Trimble et al Lease	1)A. W. Adkisson 4.296875% 1)Marshall & Winston, Inc. Box 768, Midland, Texas 1.171875% 1)John R. Trimble 1.171875% 1)Donald Winston, Trustee 1.171875% 1)Dale Ray Trimble 1.171875% 1)Ralph A. Shugart, whose wife is Rena 0.390625% 2)R. T. Jones, whose wife is Amalee 2.343750% 3)W. L. Hahn, whose wife is Eva 0.781250%	Chevron Oil Company		Chevron Oil Company- 100%	0.270801
31	<del>TL7S-R32E</del> (to base of Lovington Sand) Sec. 9; N/2 SE/4; S/2 NE/4	160	1)A. C. Taylor et al Lease 2-5-38 (11/16)  2)R. T. Jones Lease  3)W. L. Hahn Lease   2)Frank E. Miller Lease; 2-5-38 (1/8 royalty) (Lease covers 1/32 M.I.)	1)Zachary L. Taylor 4.296875% 1)Ella Belle Holeman 2.148438% 1)Bette Taylor 2.148438% 2)Mary Ann Miller 0.130208% 2)Lillie Mae Yates 0.130208% 2)Julia Miller Burnham 0.130208%	Chevron Oil Company		Chevron Oil Company- 100%	3.344104

Tract No.	Description Fee Lands	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
31 (Cont'd)			3) Constance E. Byers Lease, 2 Miles Road, Austin, Texas (3/16 royalty) (Lease covers 1/32 M.I.)	3) Constance E. Byers 0.585938%				
			4) H. H. Baish Lease (1/8 royalty) (1/32 M.I.)	4) Ruth E. Baish 0.390625%				
	(down to base of San Andres Formation only)		5) Gardner Pet. Co.; 1-27-60 (3/16 int., 1/8 royalty)	5) Dorothy Dell Graeber 6.2500%				
			6) Bob Bradshaw Lease 4-4-60 (1/32 M.I., 1/8 royalty)	6) Kiska Oil Co. 0.390625%				
32	T17S-R32E Sec. 10; NW/4 SW/4	40	1) A. C. Taylor et al Lease (29/32)	1) Zachary L. Taylor 5.664063%	Chevron Oil Company		Chevron Oil Company- 100%	1.535181
			2) Sabine Royalty Corporation	1) Ella Belle Holeman 2.832031%				
				1) Bette Taylor 2.832031%				
				2) Sabine Royalty Corporation 0.781200%				
				2) David Bond Kyte 0.195300%				
				2) The Bank of Calif., N.A., San Francisco, Calif., Trustee under Declaration of Trust by Betty Kyte Dresser, dated 12-23-58 0.195300%				
				*2) Mariee I. Kyte 0.390600%				

\*Non-participating royalty interest; executive rights owned by Sabine Royalty Corporation.

Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
32 (Cont'd)	<u>Fee Lands</u>							
33	T17S-R32E (down to 4295') Sec. 4; S/2 NW/4	80	3)Albuquerque National Bank, Tr. Lease  4)Selma E. Andrews Lease	3)Albuquerque National Bank, Trustee under Will of F. A. Andrews, Dec'd. 0.271260% 4)Selma E. Andrews 0.314677%				
			1)Nellie E. Taylor Lease 12-15-55 2)H. D. Taylor Lease; 12-15-55	1)Nellie E. Taylor 2.343750% 2)Bette Taylor 0.585937% 2)Ella Belle Holeman 0.585937%	Chevron Oil Company	Sinclair Oil & Gas Co. - 4.785156%	Chevron Oil Company - 100%	4.901806
			3)Zack Taylor Lease 12-15-55 4)G. C. O'Connor 11-14-59	3)Zack Taylor & wife, Willie 1.171875% 4)G. C. O'Connor, a widower 1.562500%		G. C. O'Connor 0.683594%		
			5)Robert N. Teas 4-14-60 6)Rachel Anderson Hogg 4-14-60 7)Martha Teas Hendricks et al 4-14-60	5)Robert N. Teas, a bachelor 0.781250% 6)Rachel A. Hogg 0.390625% 7)Martha Teas Hendricks 0.0976563%				
			8)Augustus Francis Livengood 4-17-60 9)Thomas C. Livengood 4-17-60	8)Augustus Francis Livengood, Dec'd. 0.065140% 9)Thomas Clifton Livengood, Dec'd. 0.065140%				

Tract No.	Description Fee Lands	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
33 (Cont'd)			10) A. Riggs Livengood 4-27-60	10) A. Riggs Livengood, a bachelor, Company Dec'd. 0.065140%	Chevron Oil			
			11) Selma E. Andrews & Albuquerque Nat'l Bank, Tr. under Will of F. A. Andrews 3-25-60	11) Selma E. Andrews 0.839141% 11) Albuquerque Nat'l Bank, Tr. under Will of Frank A. Andrews 0.723359%		Selma E. Andrews 0.367121% Albuquerque Nat'l Bank 0.316470%		
			12) Sabine Royalty Corporation 3-25-60	12) Sabine Royalty Corporation 3.12500%				
			13) Mary Anne Berliner et al 11-14-59	13) Julia Miller Burnham 0.520833% 13) Frank William Yates 0.520833% 13) Mary Anne Berliner 0.520833%		Julia Miller Burnham 0.227865% Frank William Yates 0.227865% Mary Anne Berliner 0.227865%		
34	T17S-R32E (down to base of Lovington Sand) Sec. 4; SE/4 SE/4	40	1) A. C. Taylor et al 2-5-38 (29/32)	1) Zachary L. Taylor 5.664063% 1) Ella Belle Holeman 2.832031% 1) Bette Taylor 2.832031% 2) Albuquerque Nat'l Bank, Trustee under Will of F. A. Andrews, Dec'd. 0.271260% 3) Selma E. Andrews 0.314677% Heirs of Max W. Coll, Dec'd. 3.125000% Unleased	Chevron Oil Company		Chevron Oil Company- 93.750% Unleased- 6.250%	0.961743





Tract No.	Description	No. of Acres	Serial No. and/or Date of Lease	Royalty Owner and Amount	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Tract Participation
36 (Cont'd)	Fee Lands							
			9) Thomas C. Livengood 4-17-60	9) Thomas Clif- ton Livengood, Dec'd. 0.065105%	Chevron Oil Company			
			10) A. Riggs Livengood 4-27-60	10) A. Riggs Liven- good, a bachelor 0.065105%				
			11) Selma E. Andrews & Albuquerque Nat'l Bank, Tr. under Will of F. A. Andrews 3-25-60	11) Albuquerque Nat'l Bank under Will of Frank A. Andrews 0.723359% 11) Selma E. Andrews 0.839141%		Albuquerque Nat'l Bank 0.316470%		
			12) Sabine Royalty Corporation 3-25-60	12) Sabine Royalty Corporation 3.125000%		Selma E. Andrews 0.367121%		
16 Fee Tracts		880 Acres or 25.58% of Unit Area						

## RECAPITULATION - MALJAMAR GRAYBURG UNIT AREA

18 Federal Tracts	2481 Acres	72.10%
2 State Tracts	80 Acres	2.32%
16 Fee Tracts	880 Acres	25.58%
36 Tracts	3441 Acres	100.00%