Clase 4203

UNIT AGREEMENT
HUMPHREY QUEEN UNIT
LEA COUNTY, NEW MEXICO

# UNIT AGREEMENT

# HUMPHREY QUEEN UNIT LEA COUNTY, NEW MEXICO

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EXHIBIT A (Map of Unit Area)

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#### UNIT AGREEMENT

#### HUMPHREY QUEEN UNIT LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of August, 1969, by and between the parties subscribing, ratifing, or consenting hereto, and herein referred to as "Parties hereto";

#### WITNESSETH:

WHEREAS, The parties hereto are the owners of working, royalty, or other oil or gas interests in the lands subject to this Agreement; 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 Humphrey Queen Unit Area, comprised of land hereinafter discribed, 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, to 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 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. <u>ENABLING ACT AND REGULATIONS</u>: 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. <u>UNIT AREA AND DEFINITIONS</u>: 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 761.25 acres, more or less, in Lea County, New Mexico. Said land is described as follows:

# Township 25 South, Range 37 East, New Mexico Principal Meridian

Section 3: Lots 1, 2, 3, and 4, S/2 N/2, and S/2

Section 4: Lot 1, SE/4 NE/4, and NE/4 SE/4

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

- (a) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (b) "Director" is defined as the Director of the United States Geological Survey.
- (c) "Secretary" is defined as the Secretary of the Interior of the United States of America or any other person duly authorized to exercise the powers vested in that office.
- (d) "Department" is defined as the Department of the Interior of the United States of America.
- (e) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey for the region in which the Unit Area is situated.
- (f) "Unitized Formation" is defined as that stratigraphic interval underlying the Unit Area extending from a point 100' above the base of

the Seven Rivers formation to the base of the Queen formation, said interval being more specifically the equivalent of the continuous interval occurring between the depths of 3,104' and 3,518', as shown on the Schlumberger Gamma-Ray Sonic log run on January 1, 1964, in the Gulf Oil Corporation J. A. Stuart No. 9 well, located 330' from the North and East lines of Sec. 10, T-25-S, R-37-E, Lea County, New Mexico. Said log was measured from a Kelly bushing elevation of 3,137' above sea level.

- (g) "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 the Unitized Formation underlying Unitized Land.
- (h) "Royalty Interest" is defined as any interest in Unitized Substances, other than a working interest, the owner of which is not obligated to pay, either in cash, out of production or otherwise, any portion of the Unit Expense.
- (i) "Royalty Owner" is defined as and shall mean the owner of a Royalty Interest.
- (j) "Unit Expense" is defined as all cost, expense, or indebtedness incurred by Unit Operator pursuant to this Agreement for or on account of Unit Operations.
- (k) "Unit Operations" is defined as all operations conducted pursuant to this Agreement.
- (1) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit B.
- (m) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract.
- (n) "Tract Cumulative" is defined as the cumulative total number of barrels of oil produced from the Unitized Formation under such Tract prior to January 1, 1969, as officially reported to the Commission.
- (o) "Unit Area Cumulative" is defined as the total Tract Cumulative of all Tracts that are qualified under this Agreement in accordance with the provisions hereof.
- (p) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same.

SECTION 3. EXHIBITS. Exhibit A attached hereto is a map showing the Unit Area and, to the extent known to 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 Unit Operator, the acreage comprising each Tract, land description and the percentage and kind of ownership of oil and gas interests in each Tract in the Unit Area. Exhibit C, attached hereto, is a schedule showing the Tract Participation assigned to each Tract. However, nothing herein or in said schedules 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 schedules as owned by such party. Exhibits A, B and C shall be revised by Unit Operator whenever changes render such revision necessary or when requested by the Supervisor, and not less than four copies thereof shall be filed with the Supervisor. If an Exhibit is revised pursuant to this Agreement, Unit Operator shall certify and file the revised Exhibit for record in Lea County, New Mexico.

SECTION 4. <u>UNITIZED LAND AND UNITIZED SUBSTANCES</u>. All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land Subject to this Agreement". All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within the Unitized Formation underlying Unitized Land are unitized under the terms of this Agreement and herein are called "Unitized Substances". Nothing herein shall be construed to unitize, pool or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as above defined.

SECTION 5. <u>UNIT OPERATOR</u>. Mobil Oil Corporation is hereby designated as the Unit Operator, and by signing this agreement as Unit Operator, it agrees and consents to accept the duties and responsibilities of Unit Operator for the operation, development, and production of Unitized Substances as herein provided.

SECTION 6. ACCOUNTING PROVISIONS AND UNIT OPERATIONS. Costs and expenses incurred in conducting Unit Operations hereunder shall be paid by Unit Operator.

SECTION 7. 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 UnitOperator. Nothing herein, however, shall be construed to transfer title to any interest in Unitized Substances, 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.

PLAN OF OPERATIONS. It is recognized and agreed by the SECTION 8. 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 additional recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that Unit Operator may, subject to the consent and approval a plan of operation by the Supervisor and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil and any one or more other substances or combination of 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 Supervisor with monthly injection and production reports for each unit well. 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 and the Supervisor prior to their being effected.

Subject to like approval the Plan of Operation may be revised as conditions may warrant.

The initial plan of operation shall be filed for approval with the Supervisor and the Commission concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor and the Commission 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. Thereafter, from time to time before the expiration of any existing plan, Unit Operator shall submit for like approval a plan for an additional specified period of operation.

SECTION 9. <u>EASEMENTS OR USE OF SURFACE</u>. The parties hereto, to the extent of their rights and interest, hereby grant to Unit Operator the right to use as much of the surface of the land within the Unit Area as may reasonably be necessary for Unit Operations and for the removal of Unitized Substances from the Unit Area; provided that nothing herein shall be construed as leasing or otherwise conveying to the Working Interest Unit Operator a site for water, gas injection, processing or other plants, or a camp site. The parties hereto, to the extent they have the right to do so, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unitized Land for injection into the Unitized Formation. The grant of this right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into such other formations. Unit Operator shall not be entitled to take water from any well, lake, pond or irrigation ditch belonging to a Royalty Owner without negotiating with such party for the use of such water.

SECTION 10. TRACT PARTICIPATION. In Exhibit C attached hereto, there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation percentages allocated to that Tract, calculated on the basis of all Tracts within the Unit Area being committed to this Agreement as of the effective date hereof. The Tract Participations of each Tract within the Unit Area as set forth in Exhibit C have been calculated and determined in accordance with the

factors and formula set out below, and such Tract Participation shall govern the allocation of Unitized Substances produced from the Unit Area from and after the effective date hereof, subject to any revision or revisions of the Unit Area or the Exhibits to this Agreement in accordance with the provisions hereof.

The percentage of Tract Participations set forth in Exhibit C for each Tract within the Unit Area have been calculated and determined in accordance with the following formula:

Participation = Tract Cumulative
Unit Area Cumulative

In the event less than all of the Tracts within the Unit Area are committed to this Agreement as of the effective date hereof, Unit Operator shall promptly prepare a revised Exhibit C setting forth opposite each of the qualified Tracts (as determined from Section 11 hereof, Tracts Qualified for Participation), the revised Tract Participations which shall be calculated and determined by using the factors and formula set forth in this Section, but applying the same only to the qualified Tracts. Unit Operator shall promptly file copies of such revised Exhibit C with the Commission and the Supervisor, and unless revised Exhibit C is disapproved by Supervisor within sixty (60) days after such filing, the revised Exhibit C shall be effective as of the effective date of this Agreement, and shall thereafter govern the allocation of all Unitized Substances subject to any further revisions of Exhibit C in accordance with the provisions (Sections 3, 25, and 26) hereof.

SECTION 11. 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 those Tracts more particularly described in 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 that otherwise qualify as follows:

(a) Each Tract as to which all of the Working Interest is committed and Royalty Owners owning seventy percent (70%) or more of the Royalty Interest therein have become parties to this Agreement.

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 pursuant to this Section. The lessee of record shall supplant the Royalty Interest Owner with respect to Federal lands for qualification purposes under this Section.

If, on the effective date of this Agreement, there is any Tract or Tracts which have not been qualified 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 Supervisor, file a schedule of those Tracts which are entitled to participate in the allocation of Unitized Substances. Said schedule shall set forth opposite each such qualified Tract the assigned Tract number, the lease number, the owner of record of the lease and the Tract Participation percentage which shall be computed according to the participation formula set out in Section 10, (Tract Participation).

SECTION 12. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on Unitized Land for drilling, operating, camp, other production or development purposes, and for pressure maintenance or unavoidably lost) shall be apportioned among and allocated to the qualified Tracts within the Unit Area in accordance with the respective Tract Participation percentages effective at the time such Unitized Substances are produced, as set forth in the then current Exhibit C. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties executing, consenting to or ratifying this Agreement entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have partici-

pated 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 except as provided in Section 35 hereof, shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the joinder of any Tract.

If the Royalty Interest in any Tract, on or after the effective date hereof, is divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the percentage 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 parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each party 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 Unitized Land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 13, (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 responsible for the payment of such expense.

If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right but not the obligation, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as

are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year and at not less than prevailing market price in the area for like production. 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.

If, after the effective date of this Agreement, there is any Tract or Tracts within the Unit Area not qualified hereunder as of the effective date hereof but which are subsequently qualified for participation under the provisions of Section 11 (Tracts Qualified for Participation) and Section 26 (Nonjoinder and Subsequent Joinder), or if any Tract is excluded from this Unit Agreement as provided for in Section 25 (Loss of Title), the schedule of participation as shown in Exhibit C, subject to Section 10 (Tract Participation) or Section 26 (Nonjoinder and Subsequent Joinder), whichever is appropriate, shall be revised by Unit Operator and distributed to the Supervisor to show the new Tract Participations of all the then qualified Tracts; and said revised Exhibit C, upon approval by the Supervisor, shall govern all the allocation of Unitized Substances produced on and after the effective date thereof until the effective date of a new schedule so filed and approved by the Supervisor. In any such revision of Exhibit C pursuant to this paragraph, the Tract Participation of the previously qualified Tracts shall remain in the same ratio one to the other.

Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by the party 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 to 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 any Federal lease committed hereto 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 Land were a single consolidated lease.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline run per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing as of the effective date hereof.

All royalty due Royalty Owners hereunder (other than the United States of America) shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts qualified hereunder, in lieu of actual production from such Tract or Tracts.

Each Royalty Owner (other than the United States of America) that ratifies this Agreement represents and warrants that he is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as his 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 in the affected Tract or Tracts shall be adjusted accordingly.

If 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 of operation first approved by the Supervisor, a like amount of gas, less appropriate deduction for loss or depletion from any cause may be withdrawn from the Unitized Formation royalty free as to dry gas, but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time and pursuant to such conditions and formulas as may be prescribed in the approved plan of operation or as may otherwise be consented to by the Supervisor as conforming to good petroleum engineering practices and provided further, that such right of withdrawal shall terminate on the termination date of this Unit Agreement.

SECTION 14. RENTAL SETTLEMENT. Rentals or minimum royalties due on leases committed hereto shall be paid by the party responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof, due under their leases. Rental or minimum royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless such rental or minimum royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 15. <u>CONSERVATION</u>. 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 16. <u>DRAINAGE</u>. 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 17. 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 Land Subject to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise shall remain in full force and effect, and the parties hereto hereby consent that the Secretary, by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal 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 Land 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 Unitized Land, 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 Land pursuant to direction or consent of the Supervisor or his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of Unitized 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 until the termination hereof.
- (g) 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." In the application of this provision the terms "area" and "lands" shall be the Unit Area as defined in the first paragraph of Section 2 hereof.

SECTION 18. 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 the pertinent exhibits to this Agreement upon approval by the Supervisor.

SECTION 19. <u>COVENANTS RUN WITH LAND</u>. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or

other successor in interest. No assignment or transfer of any Royalty Interest subject hereto shall be binding on Unit Operator, until the first day of the calendar month after Unit Operator is furnished with the original or exceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 20. <u>EFFECTIVE DATE AND TERM</u>. 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 calendar month after the following requirements have been met:

- (a) Tracts comprising seventy percent (70%) or more of the Unit Area as shown on the original Exhibit A have qualified under the provisions of Section 11; and
- (b) The approval of this Agreement by the Commission and by the Director or his duly authorized representative; and
- (c) The filing of at least one counterpart of this Agreement for record in the office of the County Clerk of Lea County, New Mexico, by Unit Operator and provided, further, that if (a), (b) and (c) above are not accomplished on or before March 1, 1970, this Agreement shall ipso facto expire on said date and thereafter be of no further force or effect.

Unit Operator shall, within thirty (30) days after the effective 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 become effective according to its terms and stating further the effective date.

The term of this Agreement shall be for and during the time that Unitized Substances are or can be produced in paying quantities from the Unit Area and so 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 such Unitized Substances can be produced as aforesaid.

This Agreement may be terminated by Unit Operator at any other time and for any other reason with the approval of the Supervisor. Notice of any such approved termination shall be filed with the County Clerk of Lea County, New Mexico, and given to all parties hereto within thirty (30) days after the effective date of termination.

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

If not otherwise provided by the leases unitized under this Agreement, Royalty Owners hereby grants Unit Operator 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 21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. 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 is not fixed pursuant to Federal or State law or does not conform to any statewide 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. No such alteration or modification shall be effective as to any 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 and the Commission 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 22. <u>NONDISCRIMINATION</u>. 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 hereby incorporated by reference in this Agreement.

SECTION 23. 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 Federal or State law, or rules and 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 term 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 24. <u>UNAVOIDABLE DELAY</u>. All obligations under this Agreement requiring Unit Operator to commence or continue secondary recovery operations or to operate on or produce Unitized Substances from any of the Lands Subject to this Agreement shall be suspended while, but only so long as 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 Unit Operator, whether similar to matters herein enumerated or not. No unit obligation which is suspended pursuant to this Section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. Determination of creditable "unavoidable delay" time shall be made by Unit Operator subject to the approval of the Supervisor.

Land shall fail so as to render the Tract inoperable under this Agreement and the true owner cannot be induced to join this Unit Agreement, such Tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In such event, Unit Operator shall recompute the Tract Participation of each of the Tracts remaining subject to this Agreement and shall revise Exhibit C accordingly. The revised Exhibit C shall be effective as of the first day of the calendar month in which such failure of title is finally determined. The participation percentages so recomputed for the qualified Tract shall remain in the same ratio one to the other as before the loss of title was determined.

If title to a Royalty Interest fails, but the Tract to which it relates remains qualified, the parties whose title failed shall not be entitled to share hereunder with respect to such interest. In the event of a dispute as to title as to any Royalty Interest, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to Federal land or leases, no payments of funds due the United States of America shall be withheld, but such funds shall be deposited as directed by the Supervisor 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.

SECTION 26. <u>NONJOINDER AND SUBSEQUENT JOINDER</u>. If the owner of any substantial interest in a Tract within the Unit Area fails or refuses to subscribe or consent to this Agreement, Unit Operator may withdraw said Tract from this Agreement by written notice to the Supervisor prior to the approval of this Agreement by the Supervisor.

Any oil & gas interests in the Unitized Formation not committed hereto prior to the effective date of this Agreement may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 11, at any time during a period of twelve (12) months after the effective date of the Unit Agreement on the same basis of participation as provided in Section 10, by the owner or owners thereof subscribing, ratifying or consenting in writing to this Agreement.

It is understood and agreed, however, that after such twelve (12) month period the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such equitable basis as may be agreed upon by Unit Operator and the Supervisor. After the effective date hereof, joinder by a Royalty Owner to this Agreement must be consented to in writing by Unit Operator. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 A.M. of the first day of the month following the filing with 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 Supervisor is duly made within sixty (60) days after such filing.

SECTION 27. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Department and the Commission, and to appeal from any order issued under the rules and regulations of 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 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 28. <u>NOTICES</u>. 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 29. <u>COUNTERPARTS</u>. 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 land within the above described Unit Area.

SECTION 30. <u>COMMITMENT OF INTEREST TO UNIT</u>. The execution of this Agreement by a party shall commit all interests owned or controlled by such party as of the date of execution, and additional interests acquired before the effective date hereof. The commitment of any interest in any Tract within the Unit Area which occurs later than twelve (12) months after the effective date hereof, shall be upon such terms as may be negotiated by Unit Operator and the owner of such interest.

SECTION 31. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount of value of the Unitized Substances produced from the Unitized Land; provided, however, that if it is required or if it be determined that Unit Operator must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that Unit Operator 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 nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 32. <u>BORDER AGREEMENTS</u>. Unit Operator may, subject to approval of the Supervisor, enter into a border-protection agreement or agreements with the oil and gas leasehold owners or operators 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 33. <u>PERSONAL PROPERTY EXCEPTED</u>. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by Unit Operator on the lands subject to this Agreement shall be deemed to be and shall remain personal property of Unit Operator and may be removed by Unit Operator.

SECTION 34. <u>NO PARTNERSHIP</u>. 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 35. 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 determine the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has been produced as a part of the prior allowable of the well or wells from which produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed, and any said oil shall be promptly removed from the Unit Area. Any such oil not so removed may be sold

by Unit Operator for the account of the parties entitled thereto, subject to the terms and provisions of this Agreement and make payment of Royalty to Royalty Owners under the terms of applicable lease or other contracts affected. Any 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 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 shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

SECTION 36. <u>LIMITATION OF APPROVALS</u>. 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 offices or agencies unless and until Federal lands are committed to this 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.

	MOBIL OIL CORPORATION
Date	Attorney-in-Fact

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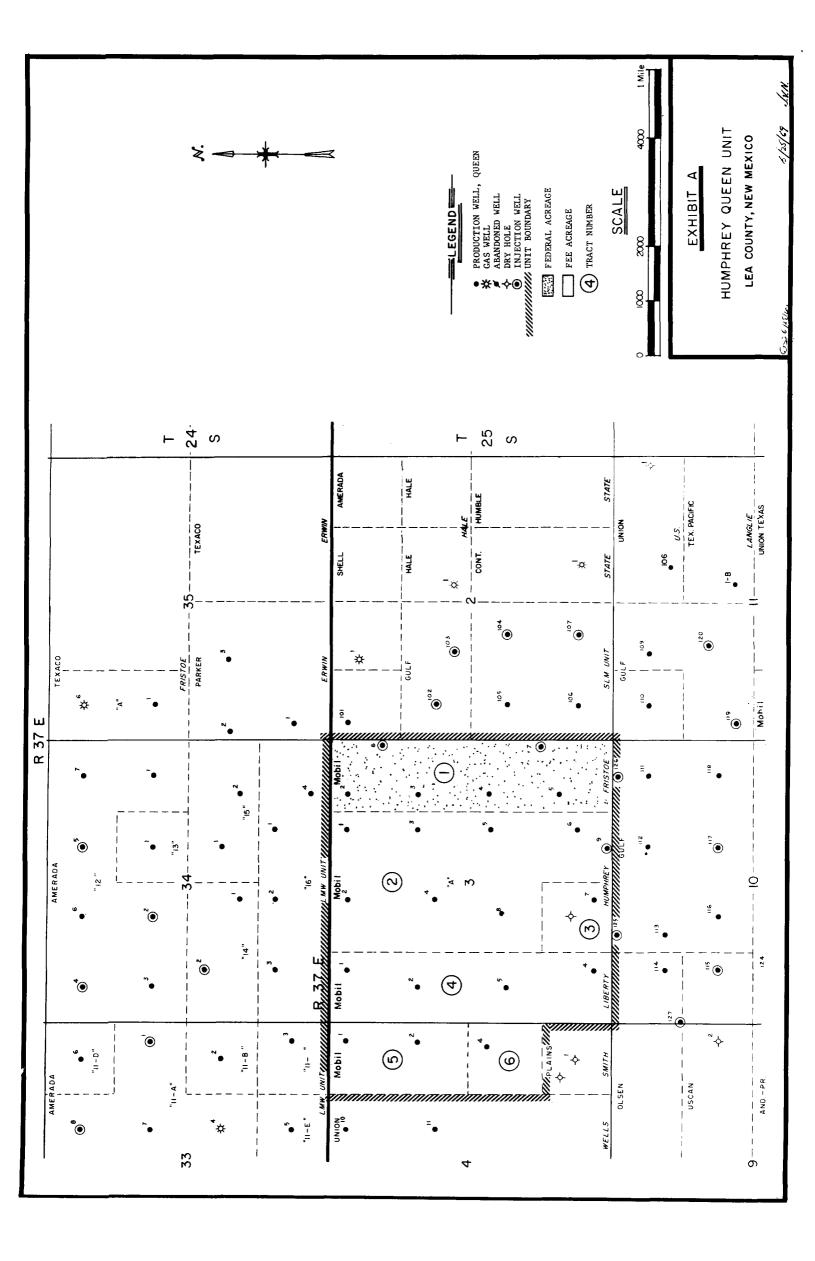


EXHIBIT B
TO
TO
UNIT AGREEMENT
HUMPHREY QUEEN UNIT

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
FEDERA Sea	FEDERAL LANDS  Township 25 South, Range 37 East Section 3: Lot 1, SE/4 NE/4, and E/2 SE/4	160.19	LC-032592-(a) 2-28-78	) U.S.AA11 (Schedule C)	Texaco Inc.	Texaco Inc0500000 Ruth Carrow .0187500 Frank Elliott .0093750 Mrs. O. R. Hall, Jr0093750 Robert E. Hanberg, Tr0187500 Della White .0093750 William J. White	Mobil Oil Corp. 100% To 3900'
T	Total: One Federal Tract - 160.19	9 Acres or 2	160.19 Acres or 21.04% of the Unit	nit Area			
E LA 2 8/11/69	LANDS  Township 25 South, Range 37 East Section 3: Lots 2 and 3, SW/4  NE/4, W/2 SE/4, SE/4  NW/4, and NE/4 SW/4	280.48	HBP 6	Earnest W. Anguish, Jr. Ancillary Exec. of Est. of E. W. Anguish, Decd. 9.3750 G. L. Buckles 3.1250 D. H. Byrd 2.0834 Hugh Corrigan, III	Mobil Oil Corp.	Scope Industries .0502930	Mobil Oil Corp.

SCRIPTION	NUMBER OF ACRES	LEASE NO. EXPIRATION DATE	& BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT
			7 1000			
			J. Fatrick Corrigan 6.2500			
			Ronald K. DeFord			
			1.5625			
			Jack Frost			
			Texas Natl. Bank of			
			Houston U/W of T. J.			
			Galbraith 3.1250			
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			Acct. of Grace D.	Gale		
			1.5625			
			Nancy Harman			
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			Mary Lee Hart 28 1250			
			Clarence E. Hinkle			
			6.2500			
			Joan R. Jones			
			0.7813			
			Llora B. LaForce			
			0.1874			
			W. Watson LaForce			
			Sarah A. Link, Indv. &			
			as Ind. Executrix of			
			Est. L. C. Link, Dec'd			
			3.1250			
			Marilyn R. Lutz			
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			Midwest Oil Corp.			
			Barbara Jean Robertson			
			Cabine Dovalty Company	20		
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OVERRIDING ROYALTY WORKING INTEREST LESSEE OF RECORD OWNER AND AMOUNT OWNER AND AMOUNT		Oil Corp. Scope Industries Mobil Oil Corp0585938 100%	
BASIC ROYALTY LESSEE O	Mary Helen Seeton 3.1250 Charles D. Vertrees 1.5625 F. Walter Voss Thomas G. Voss		Jack Frost 2.0834 Texas Natl. Bank of Houston U/W of T. J. Galbraith 3.1250 1st Trust Co. of St. Paul for Acct. of Grace D. Gale
LEASE NO. & EXPIRATION DATE		НВР	
NUMBER OF ACRES		East 40.00	
DESCRIPTION	FEE LANDS 2 (Contd)	LANDS Township 25 South, Range 37 Section 3: SE/4 SW/4	
TRACT	FEI (1	出 B-3	8/

	Mobil 0il Corp. 100%
	Scope Industries .0507810 Harris County Charity Foundation .1875000 P.P.
	Mobil Oil Corp.
Clarence E. Hinkle 6.2500 Joan R. Jones 0.7813 Llora B. LaForce 0.1874 W. Watson LaForce 0.7500 Sarah A. Link, Indv. & as Ind. Executrix of Est. L. C. Link, Decd. 3.1250 Marilyn R. Lutz 0.7812 Midwest Oil Corp. 9.3750 Barbara Jean Robertson 1.0417 Sabine Royalty Corp. 5.3126 Mary Helen Seeton 3.1250 Charles D. Vertrees 1.5625 F. Walter Voss 1.0416 Thomas G. Voss	Rocket Oil & Gas Co. 100.0000 (Subject to Harris County Charity Fdn. Production Payment)
	НВР
	160.29
	Township 25 South, Range 37 East Section 3: Lot 4, SW/4 NW/4, W/2 SW/4
FEE LANDS 3 (Contd) P-8	4 Townshi
	FEE LANDS  Clarence E. Hi 6.2500 Joan R. Jones 0.7813 Llora B. Lafor 0.1874 W. Watson Lafor 0.1874 W. Watson Lafor 0.7812 Sarah A. Link, as Ind. Execut 8.3.50 Marilyn R. Lut. 0.7812 Midwest 0il Coy 9.3750 Barbara Jean Re 9.3750 Barbara Jean Re 5.3126 Charles D. Ver' 1.5625 F. Walter Voss 1.0416

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
FEE LANDS 5 Township 25 Section 4:	South, Range 37 East Lot 1, SE/4 NE/4	80.29	НВР	Florence Breacher 12.5000 Mrs. Alice Ailleen Brett 25.0000 Donald C. Frankel 12.5000 Southland Royalty Co. 50.0000	Mobil Oil Corp.	Margaret B. Clay .0156250 Rufus G. Clay Trusts .0156250 Adrienne Gans Simon .0312500	Mobil Oil Corp. 100%
FEE LANDS  6 Township 25  Section 4:	South, Range 37 East NE/4 SE/4	40.00	НВР	Southland Royalty Co. 50.0000 Donald C. Frankel 12.5000 Florence Breacher 12.5000 Alice Ailleen Brett* 12.5000 Rosalind Redfern** 4.1666 J. H. Herd** 4.1666 John J. Redfern, Jr.** 2.0834 Frank J. Redfern**	Mobil Oil Corp.	Margaret B. Clay .0156250 Rufus G. Clay Trusts .0156250 Adrienne Gans Simon .0312500	Mobil Oil Corp. 100%
* 25.0000% Interest ** No Interest Above 89/11 69/11 Total Five Fe	Above 3400'. 3400'. e Tracts - 601.06 / ix Tracts - 761.25	Acres or 78.96% Acres or 100%	% of the Uni	t Area Area			

# EXHIBIT C TO UNIT AGREEMENT HUMPHREY QUEEN UNIT LEA COUNTY, NEW MEXICO

Tract Number	Description of Tract	Tract Participation Percentage
1.	Lot 1, SE/4 NE/4, and E/2 SE/4	24.2849
	Section 3, T-25-S, R-37-E	
2.	Lots 2 & 3, SW/4 NE/4, SE/4 NW/4, W/2 SE/4, and NE/4 SW/4 Section 3,	38.8012
	T-25-S, R-37-E	
3.	SE/4 SW/4, Section 3, T-25-S,	2.0077
	R-37-E	
4.	Lot 4, SW/4 NW/4, and W/2 SW/4,	17.2119
	Section 3, T-25-S, R-37-E	
5.	Lot 1 and SE/4 NE/4 Section 4,	14.4991
	T-25-S, R-37-E	
6.	NE/4 SE/4 Section 4, T-25-S,	3.1952
	R-37-E.	***************************************
	TOTAL	100.0000

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Langlie-Mattin Queen Mexico  GL. Ekr. 1886. MA Set Willows 19 1, 202 1,		Humphred Queen Unit Well Nozo WIN.
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Queen Perforations  3, 274'- 3, 533'- 7A.  7 otal 42 Note:  5'4"- wit. & Gr. N.A. set wy 760sx  Min. Burst Press. = N.A.  3,720'- T.D.		1/2005x 3.0
Queen Perforations  3, 274'- 3, 533'- 7A.  7 otal 42 Note:  5'4"- wit. & Gr. N.A. set wy 760sx  Min. Burst Press. = N.A.  3,720'- T.D.		
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