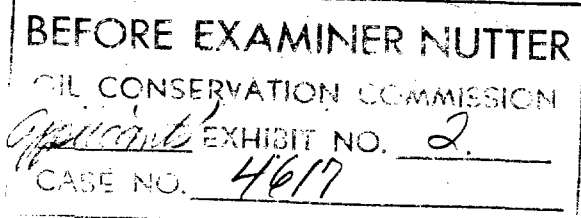


UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE LUSK (SEVEN RIVERS) UNIT  
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE LUSK (SEVEN RIVERS) UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of July, 1971, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto".

WITNESSETH: That,

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the Unit Area 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, Chap. 65, Art. 3, Sec. 14, N.M.S., 1953 anno) 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 Lusk (Seven Rivers) Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

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

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

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

SECTION 2. UNIT AREA AND DEFINITIONS. The area described in Exhibit "B" and depicted on Exhibit "A" attached hereto is hereby designated and recognized as constituting the Unit Area, containing 520 acres, more or less, in Lea County, New Mexico. Said unitized land is described as follows:

Township 19 South, Range 32 East, N.M.P.M.

Section 3: W/2, SE/4,  
SW/4 NE/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) "Commissioner" is defined as the Commissioner of Public Lands 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, or his duly authorized delegate.

(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 stratigraphic interval commonly known as the Seven Rivers Sand and more specifically defined as that interval occurring between 3838 feet and 3860 feet in Tenneco Oil Company's (formerly Cactus Drilling Company's) Shell Federal Well No. 2 located 2130 feet from the north line and 1980 feet from the west line of Section 3, Township 19 South, Range 32 East, N.M.P.M., as recorded on the densilog of said well dated 1-12-66.

(h) "Unitized Substances" is defined as and shall mean all oil, gas, gaseous substances, sulphur contained in gas, condensate, and all associated and constituent liquid or liquefiable hydrocarbons produced from the Unitized Formation of the Unitized Land.

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

(j) "Tract Participation" is defined as that percentage of Unitized Substances allocated to a Tract under this Agreement.

(k) "Unit Participation," of each Working Interest Owner, is defined as the sum of the percentages obtained by multiplying such

Working Interest Owner's fractional Working Interest in each tract by the Tract Participation of such Tract.

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

(m) "Working Interest Owner" is defined as and shall mean any party hereto owning a Working Interest, including a carried working interest owner, whether by virtue of a lease, operating agreement, fee title or otherwise, whose interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this Agreement shall thereafter be treated as a Working Interest for all purposes of this Agreement. 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.

(n) "Royalty Interest" or "Royalty" is defined as any 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, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances. "Basic Royalty Interest" is defined as the royalty interest reserved by the lessor by an oil and gas lease.

(o) "Lessee of Record" is defined as the holder of record title under a United States Oil and Gas Lease.

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

(q) "Unit Operating Agreement" is defined as and shall mean any agreement or agreements (whether one or more) entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 9, infra, and shall be styled "Unit Operating Agreement, Lusk Seven Rivers Unit, Lea County, New Mexico."

(r) "Tract Current Oil Production" is defined as the total amount of oil, expressed in barrels of 42 U. S. gallons, produced from the Unitized Formation in each Tract during the period beginning January 1, 1970, and ending December 31, 1970, as determined from the official production reports filed with the Commission.

(s) "Unit Area Current Oil Production" is defined as the sum of "Tract Current Oil Production" for all Tracts within the Unit Area.

(t) "Useable Well" is defined as a cased wellbore which makes the Unitized Formation available from the surface without obstruction and in such condition that the well may be used either as a producing well or injection well without making repairs to the casing.

(u) "Tract Ultimate Primary Reserves" is defined as the estimated ultimately recoverable oil, expressed in barrels of 42 U. S. gallons, from each Tract from inception of production to the economic limit of production under primary operations, as determined by the initial engineering study for the Lusk Seven Rivers Unit.

(v) "Unit Area Ultimate Primary Reserves" is defined as the sum of "Tract Ultimate Primary Reserves" for all Tracts within the Unit Area.

(w) "Phase I" means the period of time beginning as of 7:00 A.M. on the effective date hereof and continuing until the first day of the month following such time as the total cumulative number of barrels of oil produced, saved and removed from the Unitized Formation underlying all Tracts described in the original Exhibit "B" equals 217,200 barrels, as determined from the official production reports filed with the Commission.

(x) "Phase II" means the remainder of the term of this agreement after the end of Phase I.

SECTION 3. EXHIBITS. Exhibit "A" attached hereto is a map showing the Unit Area and, 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 comprising each Tract, percentage ownership of each Working Interest Owner in each Tract, and the percentage and ownership of the Record Title in each Tract in the Unit Area, together with the Royalty Interests in each Tract and the ownership thereof. Exhibit "C" attached hereto is a schedule showing the tract number and the Tract Participation of each Tract in the Unit Area. 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 schedule as owned by such party.

Exhibits "A", "B" and "C" shall be revised by the Unit Operator whenever changes render such revisions necessary or when requested by the Supervisor, and not less than six copies thereof shall be filed with the Supervisor.

SECTION 4. EXPANSION. The above-described Unit Area may when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement. Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to commit such Tract or Tracts hereto shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the proposed Tract Participation to be assigned to each such Tract, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise), if 90 per cent of the Working Interest

Owners (on the basis of Unit Participation at that time) have agreed to such commitment of such Tract or Tracts, then Unit Operator shall, after preliminary concurrence by the Director:

- (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned each such additional Tract, the revised Tract Participation for all other Tracts and the effective date thereof; and
- (2) Furnish copies of said notice to the Supervisor, each Working Interest Owner, lessee; and lessor whose interests are affected (mailing copy of such notice to the last known address of each such Working Interest Owner), 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, the following:
  - (i) Evidence as to mailing said notice of expansion;
  - (ii) An application for such expansion in sufficient numbers for appropriate approval and distribution; and (iii) An instrument containing the appropriate joinders in compliance with the participation requirements of Section 14 (Tracts Qualified for Participation) and Section 33 (Non-Joinder and Subsequent Joinder), infra; and (iv) A copy of all objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Supervisor and, if appropriate, the Commission, become effective as of the date prescribed in the notice thereof. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain the same ratio one to another.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES. 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." Unitized Substances are defined in Section 2(h) of this Agreement.

SECTION 6. UNIT OPERATOR. Tenneco Oil Company, a Delaware corporation, is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference



is made herein to 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 OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, and the Supervisor and until all unit wells are placed in a satisfactory condition for suspension, abandonment, or operations, whichever is required by the Supervisor and the Commission, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by 75 per cent of the committed Working Interest Owners (on the basis of then current Unit Participation) exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Supervisor.

In all such instances of effective resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but, upon the resignation

or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, books, and records, materials, appurtenances and any other assets, used in conducting the Unit operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unitized Land) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator has been elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder for any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator by a majority vote of the Working Interest Owners (on the basis of then current Unit Participation), provided no Working Interest Owner who has been removed as Unit Operator may vote for self-succession. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator; and (b) the selection shall have been approved by the Supervisor and, if appropriate, the Commission. If no Successor Unit Operator is selected and qualified as herein provided, the Supervisor at his election, may declare this Agreement terminated.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and expenses incurred by Unit Operator in conducting Unit operations hereunder shall be paid, apportioned among, and borne by the Working Interest Owners in accordance with the Unit Operating Agreement; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the

Unit Operating Agreement, this Agreement shall prevail. Three true copies of any Unit Operating Agreement executed pursuant to this section shall be filed with 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, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request, acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this Agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. USE OF SURFACE.

(a) The parties hereto, to the extent of their rights and interests, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the Unit Area as may reasonably be necessary for Unit operations except a camp site or a gas processing or other plant site.

(b) Working interest Owners shall have free use of brine or water or both from the Unit Area for Unit operations, except water from any well, lake, pond, or irrigation ditch of a Surface Owner.

(c) Working Interest Owners shall pay the owner for damages to growing crops, timber, fences, improvements, and structures on the Unit Area that result from Unit operations.

SECTION 12. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances 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 economic recovery of Unitized Substances, prevent waste and conserve natural resources, consistent with good engineering practices expected of a prudent operator. The parties hereto agree that the Unit Operator may, subject to the consent to a plan of operation by the Working Interest Owners and approval by the Supervisor, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil and any one or more other substances whether produced from the Unitized Land or not, and that the location of input wells and the rates of injection therein shall be governed by standards of good engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Supervisor monthly injection and production reports for each well in the Unit. The Working Interest Owners and the Supervisor 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 approval of the Working Interest Owners and the Supervisor.

A plan of operation shall be filed with the Supervisor concurrently with the filing of this Unit Agreement for final approval. Said plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement and the aforementioned plan by the Supervisor, said plan, and all subsequently approved plans shall constitute the operating obligations of the Unit Operator under this Agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operation. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence operations for the secondary recovery of

Unitized Substances from the Unit Area within one (1) year after the effective date of this Agreement, or any extension thereof approved by the Supervisor, this Agreement shall terminate automatically as of the date of default. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 13. TRACT PARTICIPATION. In Exhibit "C" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract is the Tract Participation of each Tract in the Unit Area during Phase I and Phase II, as hereinabove defined which have been calculated in accordance with the following formulas:

$$\begin{array}{l} \text{Phase I} \\ \text{Tract Participation} \\ \text{Percentage} = (\text{Equals}): \\ 100 \times (\text{Times}) \quad \frac{\text{Tract Current Oil Production}}{\text{Unit Area Current Oil Production}} \end{array}$$

$$\begin{array}{l} \text{Phase II} \\ \text{Tract Participation} \\ \text{Percentage} = (\text{Equals}): \\ 100 \times (\text{Times}) \quad \frac{\text{Tract Ultimate Primary Reserves}}{\text{Unit Area Ultimate Primary Reserves}} \end{array}$$

In the event less than all of the Tracts within the Unit Area are qualified for unit participation as of the effective date hereof, Unit Operator shall, as soon as practicable after said effective date, prepare a revised Exhibit "C" setting forth the qualified Tracts and showing the revised Tract Participation of each qualified Tract, which Tract Participation shall be calculated and determined by using the factors and formulas set forth above, but applying the same only to the qualified Tracts. Unit Operator shall promptly file copies of such revised Exhibit "C" with the Supervisor and, upon approval of the Supervisor

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, however, to any further revision or revisions of Exhibit "C" in accordance with the provisions hereof.

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. As the objective of this Unit Agreement is to have the lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything herein to the contrary, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified for participation under this Section 14.

(1) On and after the effective date hereof the Tracts qualified to participate hereunder shall be the Tracts that qualify as follows:

(a) Each tract as to which Working Interest Owners owning 100% of the Working Interest have become parties to this Agreement and as to which (i) Royalty Owners under oil and gas leases on fee land owning seventy-five per cent (75%) or more of the Basic Royalty Interest; or (ii) Lessees of Record owning seventy-five per cent (75%) or more of the record title interest, whichever is applicable, have become parties to this Agreement.

(b) Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest have become parties to this Agreement and as to which Royalty Owners under oil and gas leases on fee land owning less than seventy-five per cent (75%) of the Basic Royalty Interest or Lessees of Record owning less than seventy-five per cent (75%) of the record title interest have become parties to this Agreement and as to which (i) all Working Interest Owners in such Tract have joined in a request for the inclusion of such Tract in Unit participation on the basis of such commitment, and as to which (ii) seventy-five per cent (75%) of the combined voting interests of Working Interest Owners in all Tracts that meet the

requirements of Section 14(1)(a) have voted in favor of the acceptance of such Tract as qualified for participation.

For the purpose of this Section 14(1)(b), the voting interest of a Working Interest Owner shall be equal to the ratio that its then current Unit Participation attributable to Tracts that qualify under Section 14(1)(a) bears to the total then current Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Section 14(1)(a).

(c) Each Tract as to which Working Interest Owners owning less than one hundred per cent (100%) of the Working Interest have become parties to this Agreement regardless of the percentage of Royalty or Record interests commitment hereto, and as to which (i) the Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract in Unit Participation 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 that may be made by the owners of Working Interests in such Tract who are not parties to this Agreement, and which arise out of the acceptance of the Tract as qualified for Unit Participation; and as to which (ii) seventy-five per cent (75%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Section 14(1)(a) and 14(1)(b) have voted in favor of the qualification of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 14(1)(c), the voting interest of each Working Interest Owner shall be equal to the ratio that its then current Unit Participation attributable to Tracts that qualify under Section 14(1)(a) and 14(1)(b) bears to the total then current Unit Participation of all Working Interest Owners attributable to all Tracts that

for production obtained prior to the effective date of the qualification of any Tract.

If the Working Interest or the Royalty Interest in any Tract are or become divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Unitized Substances allocated 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 the owners of interest in such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on Unitized Land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 16 (Royalty Settlement) hereof, any extra expenditure incurred by the 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.

In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the Unitized Substances, Unit Operator, in order to avoid curtailing Unit operations, may sell or otherwise dispose of such production to itself or others on a day-to-day basis at not less than the prevailing market price in the area for like production; and the account of such party shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto; provided, however, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas



production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

If, after the effective date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4(Expansion), Section 14 (Tracts Qualified for Participation), and Section 33 (Non-Joinder and Subsequent Joinder) hereof, or if any Tract is excluded from the Unit Agreement as provided for in Section 32 (Loss of Title), the schedule of participation as shown in the current Exhibit "C" shall be revised by the Unit Operator and the revised schedule, upon approval by the Supervisor shall govern the allocation of Unitized Substances on and after the effective date thereof until the effective date of a new schedule so approved. The Tract Participations of all Tracts participating prior to any such revision shall remain in the same ratio one to the other:

SECTION 16. ROYALTY SETTLEMENT. The United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the Unitized Substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulation or production or increasing ultimate recovery in conformity with a plan approved by the Supervisor, a like amount of gas, less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation, royalty-free as to dry gas but not as to the products extracted therefrom; provided such withdrawal shall be pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor, and provided further that such right of withdrawal shall terminate as of the effective date of termination of the Unit Agreement.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all Unitized Substances on the basis of the amount thereof allocated to unitized Federal land as provided herein at the rates as may be authorized by law or regulation; provided that, for leases on which 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 United States of America) that executes this Agreement represents that it is the owner of a Royalty Interest in Tract or Tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. Subject to Section 32 hereof, 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.

SECTION 17. RENTAL SETTLEMENT. Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees

of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental or minimum royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 18. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 19. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from Unitized Land by wells on land not subject to this Agreement.

SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary shall, and by his approval hereof, or by the approval hereof by his duly authorized representatives, 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:

- (1) 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.

- (2) 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.
- (3) Suspension of drilling or producing operations on all Unitized Land pursuant to direction or consent of the Supervisor or his 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.
- (4) 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.
- (5) 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 21. CORRECTION OF ERRORS. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this Agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners and the Supervisor.

SECTION 22. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to

the interest of the parties hereto and their successors in interest until this Agreement terminates; and any grant, transfer or conveyance of interest in land or leases subject hereto shall be, and hereby is, conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 23. 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 Unitized Land as to the Unitized Formation or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

SECTION 24. 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 A.M. on the first day of the month next following the approval of this Agreement by the Secretary or his duly authorized representative.

Within thirty (30) days after the effective date of this Agreement Unit Operator shall file for record in the office of the County Clerk of Lea County, New Mexico, a certificate to the effect that this

Agreement has become effective according to its terms and stating further the effective date. Unit Operator shall also file for record in the same county records at least one counterpart of this Agreement.

The term of this Agreement shall be for and during the time that Unitized Substances are or can be produced in quantities sufficient to repay the cost of producing same from 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.

This Agreement may be terminated by Working Interest Owners owning 90% Unit Participation then current at any time for any other reason, with the approval of the Supervisor. Notice of any such termination shall be given by Unit Operator to all parties hereto.

Upon termination of this Agreement, 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 25. 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 applicable limits made or fixed by the Commission with respect to lands under its jurisdiction, 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 privately owned lands subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

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

SECTION 26. NON-DISCRIMINATION. In connection with the performance of work under this Agreement, the 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 27. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Department, 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. NOTICES. All demands, notices, 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 post-paid registered or certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 29. NO WAIVER OF CERTAIN RIGHTS. Nothing contained in this Agreement 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 Land is 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 30. EQUIPMENT AND FACILITIES - FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this Agreement various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized Land as now or hereafter constituted. Therefore, for all purposes of this Agreement, any and all such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement; and it is agreed that any and all such equipment and personal property shall be and remain personal property for all purposes.



SECTION 31. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue secondary recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 32. LOSS OF TITLE. In the event title to any Tract of Unitized Land shall fail so as to render the Tract inoperable under this Agreement and the true owner cannot be induced to join this Unit Agreement, such Tract shall be automatically regarded as not committed hereto effective as of 7 A.M. on the first day of the calendar month in which such title failure is determined, and there shall be such re-adjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any Royalty, Working Interest or other interest subject thereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided that, as to 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.

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

SECTION 33. NON-JOINDER AND SUBSEQUENT JOINDER. Joinder by any Non-Working Interest 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 committed to this Unit Agreement.

Any oil or gas interest in the Unitized Formation underlying the Unit Area not committed hereto prior to submission of this Agreement for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14. (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 14, 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.

It is understood and agreed, however, that on and after the effective date hereof the commitment of a Working Interest in any Tract within the Unit Area, shall be upon such equitable terms as may be negotiated by Working Interest Owners and the owners of such interests. Except as may be otherwise herein provided, subsequent joinder as to Tracts within the Unit Area shall be effective as of 7 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 his interest to this Agreement unless objection to such joinder or basis of participation is made within sixty (60) days by the Supervisor.

SECTION 34. PRODUCTION AS OF THE EFFECTIVE DATE.

(a) Oil In Lease Tankage on Effective Date. Unit Operator shall make a proper and timely gauge of all lease and other tanks on Unitized Land in order to ascertain the amount of merchantable oil above the pipe line connection in such tanks as of 7 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and

remain the property of the parties entitled thereto the same as if the Unit had not been formed; and such parties shall promptly remove said oil from the Unitized Land. Any such oil not so removed shall be sold by Unit Operator for the account of parties entitled thereto, subject to the payment of all royalty and other payment under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. Any oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after the effective date hereof.

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

SECTION 35. 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 36. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the Unitized Land; provided, however, that, if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto,

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

SECTION 37. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained.

SECTION 38. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors, and nothing contained in this Agreement, express or implied, or any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

SECTION 39. BORDER AGREEMENTS. Subject to the approval of the Supervisor, the Unit Operator, with concurrence of Working Interest Owners having a combined Unit Participation of 75%, may enter into a border-protection agreement or agreements with the Working Interest Owners of adjacent lands with respect to operations designed to increase ultimate recovery, conserve natural resources and protect the parties and their interests.

SECTION 40. LIMITATION OF APPROVALS. Notwithstanding anything herein contained to the contrary, if no State lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Commissioner, and it shall not be necessary to file any instrument hereunder with said officer unless and until State Lands are so committed to this Agreement; likewise, if no fee lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Commission; and it shall not be necessary to file any instrument hereunder with said office unless and until fee lands are so committed to this Agreement.

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

DATE: August 5, 1971

TENNECO OIL COMPANY

ADDRESS:

P. O. Box 1031

Midland, Texas 79701

Attn: District Production  
Superintendent

By: L. L. Parial

Attorney-In-Fact

WES  
LEV

UNIT OPERATOR AND WORKING INTEREST OWNER

STATE OF COLORADO           X  
  X ss.  
CITY & COUNTY OF DENVER   X

The foregoing instrument was acknowledged before me this 5<sup>th</sup> day of August, 1971, by L. L. Parial, Attorney-In-Fact of TENNECO OIL COMPANY, a Delaware corporation, on behalf of said corporation.

Witness my hand and official seal.

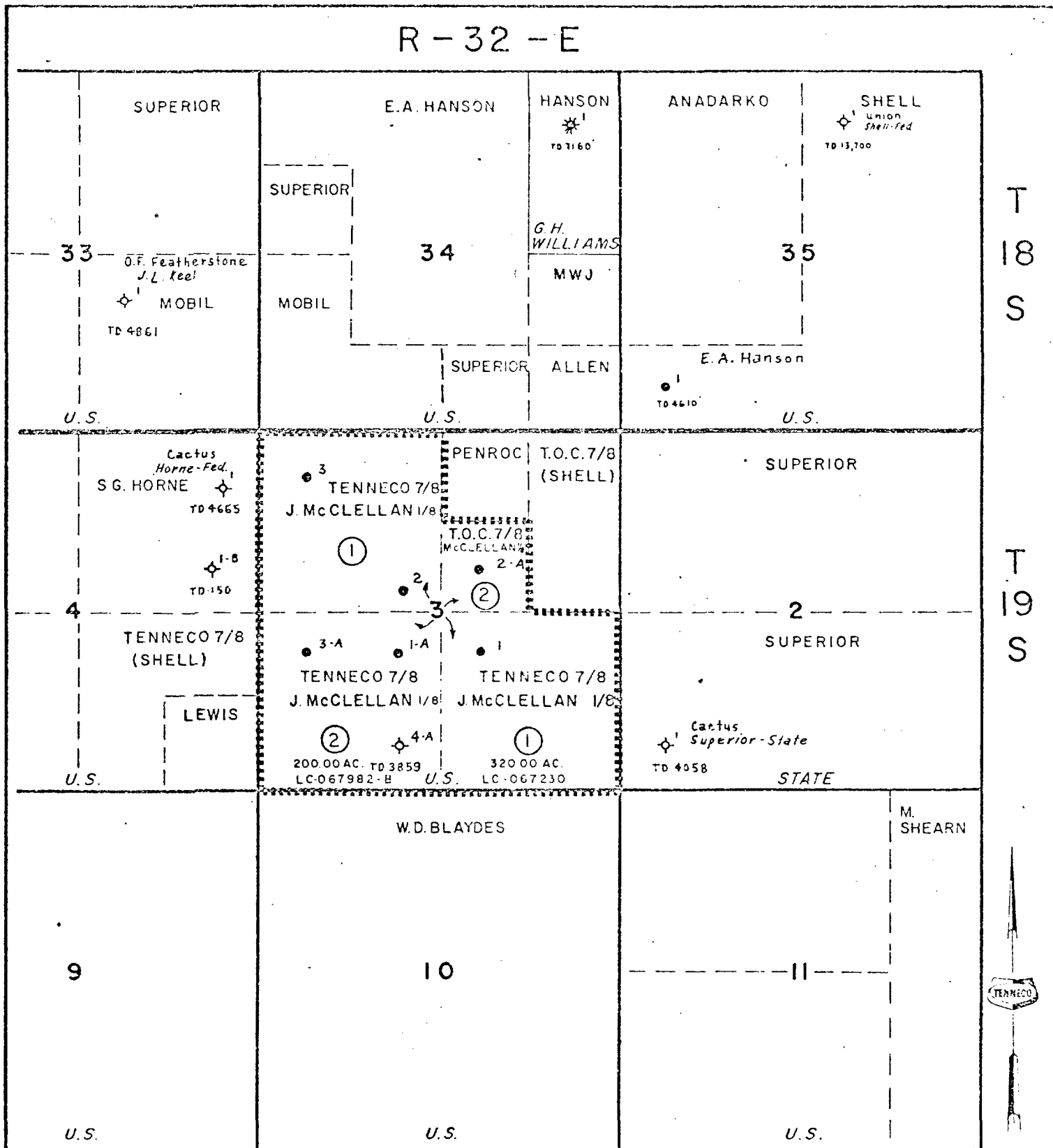
My Commission Expires:

E. C. Middaugh  
Notary Public           Elane C. Middaugh

My Commission expires July 19, 1974

# EXHIBIT "A"

LUSK (SEVEN RIVERS) UNIT  
LEA COUNTY, NEW MEXICO



ALL FEDERAL ACREAGE EXCEPT SEC. 2

TOTAL UNIT HAS 520.00 NET ACRES

TENNECO OIL COMPANY

LUSK SEVEN RIVERS FIELD  
LEA CO., NEW MEXICO

..... UNIT BOUNDARY

① TRACT NUMBER

1" = 2000'

EXHIBIT "B"

LUSK (SEVEN RIVERS) UNIT  
LEA COUNTY, NEW MEXICO  
T-19-S, R-32-E, NMPM

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	LEASE NO. & EXP. DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNERS AND PERCENTAGE	WORKING INTEREST OWNERS AND PERCENTAGE
<u>T-19-S, R-32-E, NMPM</u>							
1	Sec. 3: NW/4 SE/4	320	LC-067230 HBP	USA-100% 12.5%	Shell Oil Co.	Shell Oil Co. Bertha H. Price 5.46875% Dorothy W. Price 0.75 % 2.25 %	Tenneco Oil Co. 87.5% Jack L. McClellan 12.5%
2	Sec. 3: SW/4 SW/4 NE/4	200	LC-067982-B HBP	USA-100% 12.5%	Shell Oil Co.	Olin F. Featherstone 4.5% R. B. Todhunter 0.5% Thomas F. Kelpfer 1.0%	Tenneco Oil Co. 87.5% Jack L. McClellan 12.5%

EXHIBIT "C"

ATTACHED TO UNIT AGREEMENT  
LUSK(SEVEN RIVERS) UNIT  
LEA COUNTY, NEW MEXICO

Schedule of Tract Participation

<u>Tract No.</u>	<u>Tract Participation</u>	
	<u>Phase I (%)</u>	<u>Phase II (%)</u>
1	41.71257	51.07279
2	<u>58.28743</u>	<u>48.92721</u>
	100.00000	100.00000