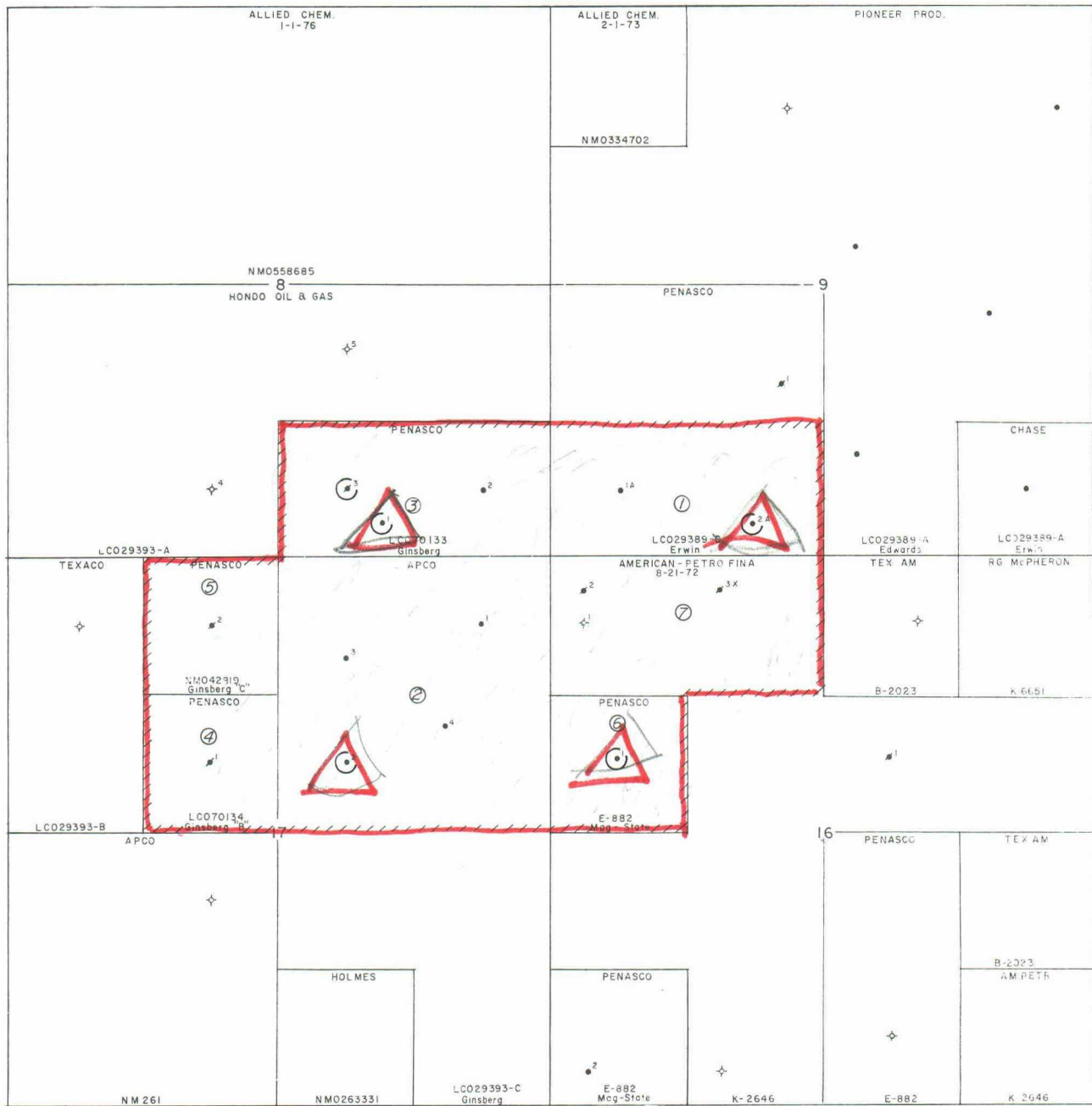


R. 31 E.

T. 18 S.



BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION

EXHIBIT NO. 1

CASE NO. 4699 + 4700

Submitted by _____

Hearing Date _____

PENASCO CORPORATION

T. 18 S. R. 31 E.
EDDY COUNTY, NEW MEXICO

NORTH SHUGART WATERFLOOD

NORTHWEST SHUGART
UNIT BOUNDARY
TRACT NO. 4

⊙ Proposed Injection Well

SCALE 8" = 1 MILE
0 1000 2000 3000

[illegible]

**UNIT AGREEMENT FOR THE DEVELOPMENT
AND OPERATION OF THE PENASCO SHUGART QUEEN SAND UNIT
COUNTY OF EDDY, STATE OF NEW MEXICO**

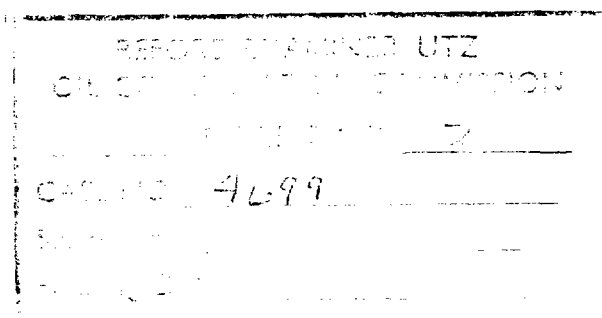
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Exhibit "A" (Map)

Exhibit "B" (Description of interests subject to agreement)

Exhibit "C" (Tract participations)



| | | |
|----|---|----|
| 1 | UNIT AGREEMENT | 1 |
| 2 | FOR THE DEVELOPMENT AND OPERATION | 2 |
| 3 | OF THE | 3 |
| 4 | PENASCO SHUGART QUEEN SAND UNIT | 4 |
| 5 | COUNTY OF EDDY | 5 |
| 6 | STATE OF NEW MEXICO | 6 |
| 7 | NO. _____ | 7 |
| 8 | THIS AGREEMENT, entered into as of the <u>3rd</u> day of <u>January</u> , | 8 |
| 9 | 1972, by and between the parties subscribing, ratifying or con- | 9 |
| 10 | senting hereto, and herein referred to as "parties hereto"; | 10 |
| 11 | W I T N E S S E T H: | 11 |
| 12 | WHEREAS, the parties hereto are the owners of working, royalty | 12 |
| 13 | or other oil or gas interests in the Unit Area subject to this | 13 |
| 14 | agreement; and | 14 |
| 15 | WHEREAS, the Mineral Leasing Act of February 25, 1920, (41 | 15 |
| 16 | Stat. 437, as amended 30 U.S.C. Sections 181, et seq.) authorizes | 16 |
| 17 | Federal lessees and their representatives to unite with each other | 17 |
| 18 | or jointly or separately with others in collectively adopting | 18 |
| 19 | and operating a unit plan of development or operation of any oil | 19 |
| 20 | or gas pool, field or like area, or any part thereof for the pur- | 20 |
| 21 | pose of more properly conserving the natural resources thereof | 21 |
| 22 | whenever determined and certified by the Secretary of the In- | 22 |
| 23 | terior to be necessary or advisable in the public interest; and | 23 |
| 24 | WHEREAS, the Commissioner of Public Lands of the State of | 24 |
| 25 | New Mexico is authorized by an Act of the Legislature (Sec. 1, | 25 |
| 26 | Ch. 88, Laws 1943 as amended by Sec. 1, Ch. 176, Laws of 1961, | 26 |
| 27 | Sec. 7-11-39, N.M.S.A.) to consent to or approve this agreement | 27 |
| 28 | on behalf of the State of New Mexico insofar as it covers and | 28 |
| 29 | includes lands and mineral interests of the State of New Mexico; | 29 |
| 30 | and | 30 |

1 WHEREAS, the Commissioner of Public Lands of the State of 1
2 New Mexico is authorized by an Act of the Legislature (Sec. 3, 2
3 Ch. 88, Laws of 1943, as amended by Sec. 1, Ch. 162, Laws of 3
4 1951, Sec. 7-11-41, N.M.S.A.) to amend with the approval of the 4
5 lessee, any oil and gas lease embracing State lands so that the 5
6 length of the term of said lease may coincide with the term of 6
7 such unitized development and operation of State lands; and 7

8 WHEREAS, the Oil Conservation Commission of the State of New 8
9 Mexico is authorized by law (Sec. 1, Ch. 76, Laws of 1953, Sec. 9
10 65-3-14, N.M.S.A.) to approve this agreement, and the conserva- 10
11 tion provisions hereof; and 11

12 WHEREAS, the parties hereto hold sufficient interests in the 12
13 Penasco Shugart Queen Sand Unit Area covering the land herein- 13
14 after described to give reasonably effective control of opera- 14
15 tions therein; and 15

16 WHEREAS, it is the purpose of the parties hereto, to enable 16
17 institution and consummation of secondary recovery operations to 17
18 conserve natural resources, to prevent waste and secure the other 18
19 benefits obtainable through development and operation of the area 19
20 subject to this agreement, under the terms, conditions and 20
21 limitations herein set forth: 21

22 NOW, THEREFORE, in consideration of the premises and the 22
23 promises herein contained, the parties hereto commit to this 23
24 agreement their respective interests in the hereinafter defined 24
25 Unit Area, and agree severally among themselves as follows: 25

26 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act 26
27 of February 25, 1920, as amended, supra., and all valid, perti- 27
28 nent regulations, including operating and unit plan regulations 28
29 heretofore issued thereunder or valid, pertinent and reasonable 29
30 regulations hereafter issued thereunder are accepted and made a 30
31 part of this agreement as to Federal lands, provided such 31

1 regulations are not inconsistent with the terms of this agree-
2 ment; and as to non-Federal lands, the oil and gas operating 2
3 regulations in effect as of the effective date hereof governing 3
4 drilling and producing operations, not inconsistent with the terms 4
5 hereof or the laws of the State of New Mexico, are hereby 5
6 accepted and made a part of this agreement. 6

7 2. DEFINITIONS. For the purpose of this agreement, the fol- 7
8 lowing terms and expressions as used herein shall mean: 8

9 (a) "Commission" is defined as the Oil Conservation 9
10 Commission of the State of New Mexico. 10

11 (b) "Director" is defined as the Director of the United 11
12 States Geological Survey. 12

13 (c) "Secretary" is defined as the Secretary of the 13
14 Interior of the United States of America. 14

15 (d) "Department" is defined as the Department of the 15
16 Interior of the United States of America. 16

17 (e) "Supervisor" is defined as the Oil and Gas Super- 17
18 visor of the United States Geological Survey for the region in 18
19 which the Unit Area is situated. 19

20 (f) "Commissioner" is defined as the Commissioner of 20
21 Public Lands of the State of New Mexico. 21

22 (g) "Unitized Formation" shall mean the Queen Sand, 22
23 a member of the Guadalupe Series of the Permian Period, occur- 23
24 ring in the Penasco (formerly R. D. Collier) Ginsberg No. 1 well, 24
25 located 330 feet from the South line and 1,650 feet from the East 25
26 line of Section 8, Township 18 South, Range 31 East, N.M.P.M., 26
27 Eddy County, New Mexico, at a depth of 3,110 to 3,162 feet as 27
28 recorded on the Lane Wells Gamma Ray Neutron Log dated December 28
29 4, 1957. 29

30 (h) "Unitized Substances" means all oil, gas, gaseous 30
31 substances, sulphur contained in gas, condensate, distillate and 31

1 all associated and constituent liquid or liquefiable hydrocarbons 1
2 produced from unitized wells completed in the Unitized Formation. 2

3 (i) "Tract" means each parcel of land shown as such and 3
4 given a tract number in Exhibit "A" and as described in Exhibit 4
5 "B". 5

6 (j) "Tract Participation" is defined as the percentage 6
7 of participation as is shown on Exhibit "C" for allocating Uni- 7
8 tized Substances to a Tract under this agreement. 8

9 (k) "Unit Participation" as used herein shall mean the 9
10 sum of the Tract Participations as shown by Tracts for each 10
11 Working Interest Owner in Exhibit "C" to the Unit Agreement. 11

12 (l) "Working Interest" is defined as the right to search 12
13 for, produce and acquire Unitized Substances whether held as an 13
14 incident of ownership of mineral fee simple title, under an oil 14
15 and gas lease, or otherwise held. Any interest in Unitized Sub- 15
16 stances which is a Working Interest as of the date the owner 16
17 thereof executes or ratifies this agreement, or which at any time 17
18 thereafter becomes a Working Interest, shall thenceforth be 18
19 treated as a Working Interest for all purposes of this agreement. 19

20 (m) "Working Interest Owner" is defined as and shall mean 20
21 any party hereto owning a Working Interest, including a carried 21
22 Working Interest Owner, holding an interest in Unitized Sub- 22
23 stances by virtue of a lease, operating agreement, fee title or 23
24 otherwise, which interest is chargeable with and obligated to pay 24
25 or bear, either in cash or out of production, or otherwise, all or 25
26 a portion of the cost of drilling, developing and producing the 26
27 Unitized Substances from the Unitized Formation and operation 27
28 thereof hereunder. 28

29 (n) "Royalty Interest" or "Royalty" is defined as an 29
30 interest other than a Working Interest in or right to receive a 30
31 portion of the Unitized Substances or the proceeds thereof and 31

1 includes the Royalty Interest reserved by the lessor in an oil 1
2 and gas lease and any overriding royalty interest, oil payment 2
3 interest, net profit contracts, or any other payment or burden 3
4 which does not carry with it the right to search for and produce 4
5 Unitized Substances. 5

6 (o) "Royalty Owner" is defined as and shall mean the 6
7 owner of a Royalty Interest. 7

8 (p) "Unit Operating Agreement" is defined as and shall 8
9 mean any agreement or agreements (whether one or more) entered 9
10 into (separately or collectively) by and between the Unit Opera- 10
11 tor and the Working Interest Owners as provided in Section 9 11
12 infra., and shall be styled "Unit Operating Agreement, Penasco 12
13 Shugart Queen Sand Unit, Eddy County, New Mexico." 13

14 (q) "Unit Manager" is defined as the person or corpora- 14
15 tion appointed by the Unit Working Interest Owners, upon resig- 15
16 nation or removal of the Unit Operator, to perform the duties of 16
17 the Unit Operator until the selection and qualification of a 17
18 successor Unit Operator as provided for in Section 8 hereof. 18

19 (r) "Oil and Gas Rights" is defined as the right to 19
20 explore, develop, and operate lands within the Unit Area for the 20
21 production of Unitized Substances, or to share in the production 21
22 so obtained or the proceeds thereof. 22

23 (s) "Unit Area" is defined as the lands described by 23
24 Tracts in Exhibits "A" and "B". 24

25 (t) "Unit Operator" is defined as the party designated 25
26 by Working Interest Owners to develop and operate the Unitized 26
27 Formation, acting as operator and not as a Working Interest Owner. 27

28 (u) "Unit Operations" means all operations conducted by 28
29 the Unit Operator pursuant to this agreement and the Unit Operat- 29
30 ing Agreement for or on account of the development and operation 30
31 of the Unitized Formation for the production of Unitized Sub- 31
32 stances. 32

(v) "Tract Primary Oil Recovery" is defined as the number of barrels of oil produced from the Unitized Formation underlying a Tract of unitized land from the date of first production to September 1, 1971, as reported to the New Mexico Oil Conservation Commission.

(w) "Unit Primary Oil Recovery" is defined as the total number of barrels of oil produced from the Unitized Formation underlying all Tracts of unitized land from the date of first production to September 1, 1971, as reported to the New Mexico Oil Conservation Commission.

3. UNIT AREA AND EXHIBITS.

3.1 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 520 acres, more or less, in Eddy County, New Mexico. Said land is described as follows:

Township 18 South, Range 31 East, N.M.P.M.

Section 8: S/2 SE/4

Section 9: S/2 SW/4

Section 16: N/2 NW/4, SW/4 NW/4

Section 17: NE/4, E/2 NW/4

3.2 Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of Tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract and the percentage and kind of ownership of oil and gas interests in each Tract.

1 Exhibit "C" is a schedule showing the percentage of participation 1
2 of each Tract on the basis of the commitment of all Tracts to 2
3 this agreement. However, nothing herein or in said schedule or 3
4 map shall be construed as a representation by any party hereto 4
5 as to the ownership of any interest other than such interest or 5
6 interests as are shown in said map or schedule as owned by such 6
7 party. Exhibits "A", "B" and "C" shall be revised by the Unit 7
8 Operator whenever changes in the Unit Area render such revision 8
9 necessary, or when requested by the Supervisor, and the required 9
10 number of copies of such revision shall be filed with the Super- 10
11 visor. 11

12 4. EXPANSION OF UNIT AREA. 12

13 4.1 The above described Unit Area may, when practicable, be 13
14 expanded to include therein any additional tract or tracts re- 14
15 garded as reasonably necessary or advisable for the purposes of 15
16 this agreement to conform with the purposes of this agreement. 16
17 Such expansion shall be effected in the following manner: 17

18 Unit Operator shall circulate a notice of the proposed ex- 18
19 pansion to each Working Interest Owner in the Unit and in the 19
20 Tract proposed to be included in the Unit, setting out the basis 20
21 for admission, the Unit Participation to be assigned to each 21
22 Tract in the enlarged Unit and other pertinent data. After 22
23 negotiation (at Working Interest Owners' meeting or otherwise) 23
24 if Working Interest Owners having in the aggregate eighty percent 24
25 (80%) Unit Participation have agreed to such Tract or Tracts 25
26 being brought into the Unit, then Unit Operator shall, after pre- 26
27 liminary concurrence by the Director and the Commissioner: 27

1 (a) Prepare a notice of proposed expansion des- 1
2 cribing the contemplated changes in the boundaries of the Unit 2
3 Area, the reason therefor, the basis for admission of the addi- 3
4 tional Tract or Tracts, the Unit Participation to be assigned 4
5 thereto and the effective date thereof; and 5

6 (b) Deliver copies of said notice to the Supervisor, 6
7 the Commissioner, each Working Interest Owner and to the lessee 7
8 and lessor whose interests are affected, advising such parties 8
9 that thirty (30) days will be allowed for submission to the Unit 9
10 Operator of any objection to such proposed expansion; and 10

11 (c) File, upon the expiration of said thirty (30) 11
12 day period as set out in (b) immediately above, with the Super- 12
13 visor and Commissioner, the following: (1) Evidence of 13
14 mailing or delivering copies of such notice of expansion; (2) 14
15 An application for such expansion; (3) An instrument containing 15
16 the appropriate joinders in compliance with the participation 16
17 requirements of Section 14 (Tracts Qualified for Participation); 17
18 and (4) Copy of any objections received. 18

19 (d) There shall be no retroactive allocation or 19
20 adjustment of unit expense or of interests in the Unitized Sub- 20
21 stances produced, or proceeds thereof prior to the effective date 21
22 of expansion and qualification under Section 14; however, this 22
23 limitation shall not prevent an adjustment of investment by 23
24 reason of the enlargement. 24

25 4.2 After due consideration of all pertinent information 25
26 and approval by the Supervisor and Commissioner, the expansion 26
27 shall become effective as of the date prescribed in the notice 27
28 thereof, preferably the first day of a month subsequent to the 28
29 date of the notice. 29

1 4.3 In any approved expansion of the Unit Area the revised 1
2 Tract Participations of those Tracts which were committed prior 2
3 to each such expansion shall remain in the same ratio one to 3
4 another. 4

5 5. UNITIZED LAND AND UNITIZED SUBSTANCES. All land com- 5
6 mitted to this agreement as to the Unitized Formation shall con- 6
7 stitute land referred to herein as "unitized land" or "land sub- 7
8 ject to this agreement." All oil, gas, gaseous substances, sul- 8
9 phur contained in gas, condensate, distillate and all associated 9
10 and constituent liquid or liquefiable hydrocarbons produced from 10
11 the lands committed to this agreement as to the Unitized Forma- 11
12 tion are unitized under the terms of this agreement and herein 12
13 are called "Unitized Substances." Nothing herein shall be con- 13
14 strued to unitize, pool or in any way affect the oil, gas and 14
15 other minerals that may be produced from any formation other than 15
16 the Unitized Formation as above described. 16

17 6. UNIT OPERATOR. Penasco Corporation, a New Mexico corpora- 17
18 tion, is hereby designated the Unit Operator, and by signing this 18
19 instrument as Unit Operator, it agrees and consents to accept the 19
20 duties and obligations of Unit Operator for the operation, develop-20
21 ment and production of Unitized Substances as herein provided. 21
22 Whenever reference is made herein to the Unit Operator, such 22
23 reference means the Unit Operator acting in that capacity and not 23
24 as an owner of interests in Unitized Substances, and the term 24
25 "Working Interest Owner," when used herein, shall include or 25
26 refer to the Unit Operator as the owner of a Working Interest 26
27 when such an interest is owned by it. 27

28 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. 28

29 7.1 Unit Operator shall have the right to resign at any 29
30 time, but such resignation shall not become effective as to re- 30
31 lease Unit Operator from the duties and obligations of Unit 31

Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Supervisor and Commissioner, and until all unit wells are placed in a condition satisfactory to the Supervisor and Commissioner for suspension, abandonment, or operations, whichever is intended by the Unit Manager, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

7.2 The Unit Operator shall, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by Working Interest Owners having in the aggregate seventy-five percent (75%) or more Unit Participation, after excluding any Unit Participation of the Unit Operator. Such removal shall be effective upon notice thereof to the Supervisor and Commissioner.

7.3 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.

7.4 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 connection with the unit operations and owned by the Working Interest Owners to the new duly qualified successor Unit Operator or to the Unit Manager if

1 no such new Unit Operator is elected, to be used for the purpose 1
2 of conducting Unit Operations hereunder. Nothing herein shall be 2
3 construed as authorizing the removal of any material, equipment or 3
4 appurtenances needed for the preservation of any wells. Nothing 4
5 herein contained shall be construed to relieve or discharge any 5
6 Unit Operator who resigns or is removed hereunder from any lia- 6
7 bility or duties accruing or performable by it prior to the effec- 7
8 tive date of such resignation or removal. 8

9 8. SUCCESSOR UNIT OPERATOR. 9

10 8.1 Whenever the Unit Operator shall tender its resignation 10
11 as Unit Operator or shall be removed as hereinabove provided, the 11
12 Working Interest Owners shall select a successor Unit Operator 12
13 as herein provided. Such selection shall not become effective 13
14 until (a) a Unit Operator so selected shall accept in writing the 14
15 duties and responsibilities of Unit Operator, and (b) the selec- 15
16 tion shall have been approved by the Supervisor and the Commis- 16
17 sioner. If no successor Unit Operator is selected and qualified 17
18 as herein provided, the Director and the Commissioner, at their 18
19 election, may declare this agreement terminated. 19

20 8.2 In selecting a successor Unit Operator the affirmative 20
21 vote of three or more Working Interest Owners having a total of 21
22 sixty percent (60%) or more of the total voting interest in the 22
23 unit shall prevail; provided, that if any one Working Interest 23
24 Owner has a voting interest of more than forty percent (40%), its 24
25 negative vote or failure to vote shall not be regarded as suf- 25
26 ficient unless supported by the vote of one or more other Working 26
27 Interest Owners having a total voting interest of at least five 27
28 percent (5%). If the Unit Operator who is removed votes only 28
29 to succeed itself or fails to vote, the successor Unit Operator 29
30 may be selected by the affirmative vote of at least fifty-one 30
31 percent (51%) of the voting interest remaining after excluding the 31

1 voting interest of Unit Operator so removed. In voting under 1
2 this Section 8 each Working Interest Owner shall have a voting 2
3 interest equal to its participation, 3

4 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. 4

5 Costs and expenses incurred by Unit Operator in conducting Unit 5
6 Operations hereunder shall be paid, apportioned among and borne 6
7 by the Working Interest Owners in accordance with the Unit Operat- 7
8 ing Agreement. Such Unit Operating Agreement shall also provide 8
9 the manner in which the Working Interest Owners shall be entitled 9
10 to receive their respective proportionate and allocated share of 10
11 the benefits accruing hereto in conformity with their underlying 11
12 operating agreements, leases or other independent contracts and 12
13 such other rights and obligations as between Unit Operator and 13
14 the Working Interest Owners as may be agreed upon by the Unit 14
15 Operator and the Working Interest Owners; however, no such Unit 15
16 Operating Agreement shall be deemed either to modify any of the 16
17 terms and conditions of this Unit Agreement or to relieve the Unit 17
18 Operator of any rights or obligations established under this agree-18
19 ment and in case of any inconsistency or conflict between this 19
20 agreement and the Unit Operating Agreement, this Unit Agreement 20
21 shall prevail. Three true copies of any Unit Operating Agreement 21
22 executed pursuant to this Section shall be filed with the Super- 22
23 visor and two true copies with the Commissioner, prior to approval 23
24 of this agreement. 24

25 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as 25
26 otherwise specifically provided herein, the exclusive right, privi-26
27 lege and duty of exercising any and all rights of the parties 27
28 hereto which are necessary or convenient for prospecting for, 28
29 producing, storing, allocating and distributing the Unitized 29
30 Substances are hereby delegated to and shall be exercised by the 30
31 Unit Operator as herein provided. Upon request by Unit Operator, 31

1 acceptable evidence of title to said rights shall be deposited 1
2 with said Unit Operator, and together with this agreement, shall 2
3 constitute and define the rights, privileges and obligations of 3
4 Unit Operator. Nothing herein, however, shall be construed to 4
5 transfer title to any land or to any lease or operating agreement, 5
6 it being understood that under this agreement, the Unit Operator, 6
7 in its capacity as Unit Operator, shall exercise the rights of 7
8 possession and use vested in the parties hereto only for the pur- 8
9 poses herein specified. 9

10 11. PLAN OF OPERATIONS. 10

11 11.1 It is recognized and agreed by the parties hereto that 11
12 all of the land subject to this agreement is reasonably proved 12
13 to be productive of Unitized Substances in paying quantities and 13
14 that the object and purpose of this agreement is to formulate and 14
15 to put into effect a secondary recovery project in order to effect 15
16 additional recovery of Unitized Substances, prevent waste and con- 16
17 serve natural resources consistent with good engineering practices 17
18 expected of a prudent operator. The parties hereto agree that the 18
19 Unit Operator may, subject to the consent and approval of a plan 19
20 of operations by the Working Interest Owners, Supervisor and Com- 20
21 missioner, inject into the Unitized Formation through any well or 21
22 wells completed therein, brine, water, air, gas, oil, liquid 22
23 petroleum gases and any one or more other substances or combina- 23
24 tions of substances whether produced from the Unitized Formation 24
25 or not, and that the location of input wells and the rate of in- 25
26 jection therein and the rate of production shall be governed by 26
27 standards of good geologic and petroleum engineering practices 27
28 and conservation methods. The Working Interest Owners, Super- 28
29 visor and Commissioner shall be furnished periodic reports on 29
30 the progress of the plan of operation and any revision or changes 30
31 thereto; provided, however, that any revision of the plan of 31

operation involving a deviation from the initial plan of operation shall be subject to the prior consent and approval of the Working Interest Owners, Supervisor and Commissioner.

11.2 The initial plan of operation shall be filed with the Supervisor and Commissioner concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor and the Commissioner may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation. 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. Notwithstanding anything to the contrary herein contained, if Unit Operator fails to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within six (6) months after the effective date of this agreement or any extension thereof approved by the Supervisor and Commissioner, this agreement shall terminate automatically upon the expiration of said six (6) month period.

11.3 The parties hereto subject to prior rights, if any, grant to the Unit Operator the use of brine or water or both from any formation in and under the Unitized Land for injection into the Unitized Formation insofar as these rights are granted by the oil and gas leases.

12. EASEMENTS OR USE OF SURFACE. The parties hereto, to the extent of their rights and interest, 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, including the free use of water from the Unit Area for Unit Operations, except water from any well, lake, pond

or irrigation ditch of Royalty Owners, provided that nothing herein shall be construed as leasing or otherwise conveying to Working Interest Owners a site for a water, gas injection, processing or other plant or camp site.

13. TRACT PARTICIPATION.

13.1 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 percentage of participation allocated to each Tract in the Unit Area, calculated on the basis that all Tracts are committed hereto.

13.2 The Tract Participation of each Tract was determined by the following formula:

$$\begin{array}{lcl} \text{Percentage} & & \\ \text{Participation} & = & 100\% \frac{\text{Tract Primary Oil Recovery}}{\text{Unit Primary Oil Recovery}} \\ \text{of Each Tract} & & \end{array}$$

13.3 In the event less than all of the Tracts within the Unit Area are qualified for participation on the effective date hereof, Unit Operator shall promptly prepare a revised Exhibit "C" setting forth opposite each of the qualified Tracts, the revised Tract Participations which shall be calculated and determined by using the factors and formula 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 the Commissioner; and, upon approval thereof by the Supervisor and the Commissioner, 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.

1 14. TRACTS QUALIFIED FOR PARTICIPATION. 1

2 14.1 As the objective of this agreement is to have lands in 2
3 the Unit Area operated and entitled to participation under the 3
4 terms hereof, it is agreed that, notwithstanding anything else 4
5 herein, no joinder shall be considered a commitment to this agree- 5
6 ment unless the Tract involved is qualified under this Section. 6
7 On and after the effective date hereof, the Tracts within the Unit 7
8 Area which shall be entitled to participation (as provided in 8
9 Section 13 hereof) in the production of Unitized Substances there- 9
10 from shall be those Tracts within the Unit Area as shown on Ex- 10
11 hibit "A" and described in Exhibit "B" that corner or have a com- 11
12 mon boundary, and which are otherwise qualified as follows (the 12
13 lessee of record shall replace the Royalty Interest with respect 13
14 to Federal lands for the purposes of this Section): 14

15 (a) Each Tract as to which Working Interest Owners 15
16 owning one hundred percent (100%) of the Working Interest therein 16
17 have become parties hereto and as to which Royalty Owners owning 17
18 seventy-five percent (75%) or more of the Royalty Interest therein 18
19 have become parties to this agreement. 19

20 (b) Each Tract as to which Working Interest Owners own- 20
21 ing one hundred percent (100%) of the Working Interest therein 21
22 have become parties hereto and as to which Royalty Owners owning 22
23 less than seventy-five percent (75%) of the Royalty Interest 23
24 therein have become parties to this agreement, and as to which: 24

25 (1) All Working Interest Owners in any such Tract 25
26 have joined in a request for the inclusion of such Tract, and 26

27 (2) Eighty percent (80%) of the combined voting 27
28 interests of Working Interest Owners in all Tracts meeting the 28
29 requirements of paragraph (a) hereof have voted in favor of 29
30 qualifying such Tract. 30

1 For the purpose of this paragraph (b), a Working Inter- 1
2 est Owner's "voting interest" shall be equal to the ratio which 2
3 its participation in all Tracts qualifying under paragraph (a) 3
4 bears to the total participation of all Working Interest Owners 4
5 in all Tracts qualifying under paragraph (a). 5

6 (c) Each Tract as to which Working Interest Owners own- 6
7 ing less than one hundred percent (100%) of the Working Interest 7
8 therein have become parties hereto, regardless of the percentage 8
9 of Royalty Interest therein which is committed hereto, and as to 9
10 which: 10

11 (1) The Working Interest Owner operating any such 11
12 Tract and all of the other Working Interest Owners in such Tract 12
13 who have become parties hereto have joined in a request for in- 13
14 clusion of such Tract and at least eighty-five percent (85%) of 14
15 such parties have executed and delivered an indemnity agreement 15
16 indemnifying and agreeing to hold harmless the other Working 16
17 Interest Owners in the unit, their successors and assigns, 17
18 against all claims and demands which arise out of the inclusion 18
19 of such Tract, which may be made by the owners of Working Inter- 19
20 est in such Tract who are not parties hereto; and 20

21 (2) Seventy-five percent (75%) of the combined 21
22 voting interest of Working Interest Owners in all Tracts meeting 22
23 the requirements of paragraph (a) and (b) above have voted in 23
24 favor of qualification of such Tract and acceptance of the 24
25 indemnity agreement. 25

26 For the purpose of this paragraph (c), a Working Interest 26
27 Owner's voting interest shall be equal to the ratio which its 27

1 participation in all Tracts qualifying under paragraphs (a) and 1
2 (b) above bears to the total participation of all Working Inter- 2
3 est Owners in all Tracts qualifying under paragraphs (a) and (b) 3
4 above. Upon qualification of such a Tract, the Tract Partici- 4
5 pations which would have been attributed to the nonsubscribing 5
6 owners of the Working Interest in such Tract, had they become 6
7 parties to this agreement and the Unit Operating Agreement, 7
8 shall be attributed to the Working Interest Owners in such 8
9 Tract who have become parties to such agreements, in proportion 9
10 to their respective Working Interests in the Tract. 10

11 15. ALLOCATION OF UNITIZED SUBSTANCES. 11

12 15.1 All Unitized Substances produced and saved (less, save 12
13 and except any part of such Unitized Substances used in con- 13
14 formity with good operating practices on Unitized Land for 14
15 drilling, operating, camp and other production or development 15
16 purposes and for pressure maintenance or unavoidable loss) shall 16
17 be apportioned among and allocated to the qualified Tracts within 17
18 the Unit Area in accordance with the respective Tract Participa- 18
19 tion effective hereunder during the respective periods such 19
20 Unitized Substances were produced, as set forth in Exhibit "C". 20
21 The amount of Unitized Substances so allocated to each Tract 21
22 (regardless of whether it be more or less than the amount of 22
23 the actual production of Unitized Substances from the well or 23
24 wells, if any, on such Tract), shall, for all intents, uses and 24
25 purposes, be deemed to have been produced from such Tract. 25

26 15.2 The Unitized Substances allocated to each Tract shall 26
27 be distributed among, or accounted for, to the parties executing, 27
28 consenting to or ratifying this agreement who otherwise are 28

1 entitled to share in the production from such Tract in the same 1
2 manner, in the same proportion, and upon the same conditions, as 2
3 they would have participated and shared in the production from 3
4 such Tracts, or in the proceeds thereof, had this agreement not 4
5 been entered into; and with the same legal force and effect. 5

6 15.3 No Tract committed to this agreement and qualified for 6
7 participation as above provided shall be subsequently excluded 7
8 from participation hereunder on account of depletion of Unitized 8
9 Substances, and nothing herein contained shall be construed as 9
10 requiring any retroactive adjustment for production obtained 10
11 prior to the effective date of the joinder of any Tract. 11

12 15.4 If the Working Interest and the Royalty Interest in 12
13 any Tract are divided with respect to separate parcels or por- 13
14 tions of such Tract and owned severally by different persons, 14
15 the percentage participation assigned to such Tract shall, in 15
16 the absence of a recordable instrument executed by all owners and 16
17 furnished to Unit Operator fixing the divisions of ownership, 17
18 be divided among such parcels or portions in proportion to the 18
19 number of surface acres in each. 19

20 15.5 The Unitized Substances allocated to each Tract shall 20
21 be delivered in kind to the respective Working Interest Owners 21
22 and parties entitled thereto by virtue of the ownership of oil 22
23 and gas rights therein or by purchase from such owners. Each 23
24 Working Interest Owner and the parties entitled thereto shall 24
25 have the continuing right to receive such production in kind 25
26 at a common point within the Unit Area and to sell or dispose of 26
27 the same as it sees fit. Each such party shall have the right 27
28 to construct, maintain, and operate all necessary facilities 28

1 for that purpose on Unitized Land, provided the same are so 1
2 constructed, maintained and operated as not to interfere with 2
3 operations carried on pursuant hereto. Subject to Section 16 3
4 hereof, any extra expenditure incurred by Unit Operator by 4
5 reason of the delivery in kind of any portion of the Unitized 5
6 Substances shall be borne by the party receiving the same in 6
7 kind. If a Royalty Owner has the right to take in kind a share 7
8 of Unitized Substances and fails to do so, the Working Interest 8
9 Owner whose Working Interest is subject to such Royalty Interest 9
10 shall be entitled to take in kind such share of the Unitized 10
11 Substances. 11

12 15.6 If any party fails to take in kind or separately dis- 12
13 pose of its share of Unitized Substances, Unit Operator shall 13
14 have the right for the time being and subject to revocation at 14
15 will by the party owning the share, to sell or otherwise dispose 15
16 of such production to itself or to others on a day to day basis 16
17 at not less than the prevailing market price in the area for 17
18 like production. 18

19 15.7 Notwithstanding the foregoing, the Unit Operator shall 19
20 not make a sale into interstate commerce of any Working Interest 20
21 Owner's share of gas production without first giving such Working 21
22 Interest Owner sixty (60) days' notice of such intended sale. 22

23 15.8 Any Working Interest Owner receiving in kind or 23
24 separately disposing of all or any part of the Unitized Sub- 24
25 stances allocated to any Tract, or receiving the proceeds there- 25
26 from if the same is sold or purchased by Unit Operator, shall be 26
27 responsible for the payment of all Royalty on the lease or leases 27
28 and Tracts contributed by it and received into the Unit, and each 28
29 such party shall hold each other party hereto harmless against 29
30 all claims, demands and causes of action for such Royalty on the 30
31 lease or leases and Tracts contributed by it to the Unit. 31

1 15.9 If, after the effective date of this agreement, there 1
2 is any Tract or Tracts that are subsequently committed hereto, as 2
3 provided in Section 4 (Expansion of Unit Area) hereof, or any 3
4 Tract or Tracts within the Unit Area not committed hereto as of 4
5 the effective date hereof but which are subsequently committed 5
6 hereto under the provisions of Section 33 (Non-Joinder and Subse- 6
7 quent Joinder) or if any Tract is excluded from this Unit Agreement 7
8 as provided for in Section 30 (Loss of Title), the schedule of 8
9 participation as shown in Exhibit "C", subject to Section 13 9
10 (Tract Participation), and Section 14 (Tracts Qualified for Par- 10
11 ticipation), shall be revised by the Unit Operator and distributed 11
12 to the Working Interest Owners, the Supervisor and the Commissioner 12
13 to show the revised Tract Participation of all the qualified 13
14 Tracts; and the revised Exhibit "C", upon approval by the Super- 14
15 visor and the Commissioner, shall govern all the allocation of 15
16 production of Unitized Substances from and after the effective 16
17 date thereof until a revised schedule is approved as herein- 17
18 above provided. 18

19 15.10 Unit Operator may use as much of the Unitized Sub- 19
20 stances as may reasonably be deemed necessary for the operation 20
21 and development of the Unitized Lands, including but not limited 21
22 to the injection of Unitized Substances into the Unitized Forma- 22
23 tion, provided such operations are in accordance with a plan 23
24 of operations approved by the Supervisor and the Commissioner. 24

25 15.11 No Royalty shall be payable upon or with respect to 25
26 Unitized Substances used or consumed in the operation or develop- 26
27 ment of the Unitized Land or which may be otherwise unavoidably 27
28 lost or consumed in production, handling, treating, transporta- 28
29 tion or storing of Unitized Substances, provided such operations 29
30 are in accordance with a plan of operation approved by the Super- 30
31 visor and the Commissioner. 31

1 16. ROYALTY SETTLEMENT. 1

2 16.1 The United States of America, the State of New Mexico, 2
3 and all Royalty Owners who, under an existing contract, are en- 3
4 titled to take in kind a share of the substances produced from any 4
5 Tract unitized hereunder, shall continue to be entitled to such 5
6 right to take in kind their share of the Unitized Substances 6
7 allocated to such Tract, and Unit Operator shall make deliveries 7
8 of such Royalty share taken in kind in conformity with the appli- 8
9 cable contracts, laws and regulations. Settlement for Royalty 9
10 Interest not taken in kind shall be made by Working Interest 10
11 Owners responsible therefor under existing contracts, laws and 11
12 regulations on or before the last day of each month for Unitized 12
13 Substances produced during the preceding calendar month; provided, 13
14 however, that nothing herein contained shall operate to relieve 14
15 the lessee of any land from their respective lease obligations 15
16 for the payment of any royalty due under their leases, except 16
17 that such royalty shall be computed on Unitized Substances as 17
18 allocated to each Tract in accordance with the terms of this 18
19 Unit Agreement. 19

20 16.2 If the amount of production or the proceeds thereof 20
21 accruing to any Royalty Owner (except the United States of 21
22 America) in a Tract depends upon the average production per well 22
23 or the average pipeline runs per well from such Tract during any 23
24 period of time, then such production shall be determined from and 24
25 after the effective date hereof by dividing the quantity of 25
26 Unitized Substances allocated hereunder to such Tract during such 26
27 period of time by the number of wells located thereon capable of 27
28 producing as of the effective date hereof. 28

29 16.3 If gas obtained from lands not subject to this agree- 29
30 ment is introduced into the Unitized Formation, for use in 30

1 repressuring, stimulation of production or increasing ultimate 1
2 recovery in conformity with a plan approved pursuant to Section 2
3 11 (Plan of Operations), a like amount of gas, less appropriate 3
4 deductions for loss or depletion from any cause, may be withdrawn 4
5 from the Unitized Formation, royalty free as to dry gas but not 5
6 as to the products extracted therefrom; provided such withdrawal 6
7 shall be pursuant to such conditions and formulas as may be pres- 7
8 cribed or approved by the Supervisor and the Commissioner; and 8
9 provided further that such right of withdrawal shall terminate 9
10 as of the effective date of termination of the Unit Agreement. 10

11 16.4 Royalty due the United States shall be computed as pro- 11
12 vided in the operating regulations and paid in value or delivered 12
13 in kind as to all Unitized Substances on the basis of the amounts 13
14 thereof allocated to Unitized Federal lands as provided herein 14
15 at the rate or rates as may be authorized by law or regulation; 15
16 provided, that for leases on which the royalty rate depends on 16
17 the daily average production per well, such average production 17
18 shall be determined in accordance with the operating regulations 18
19 as though the unitized lands were one lease. 19

20 16.5 Each Royalty Owner (other than the United States of 20
21 America and the State of New Mexico) that executes this agree- 21
22 ment represents and warrants that it is the owner of a Royalty 22
23 Interest in a Tract or Tracts within the Unit Area as its inter- 23
24 est appears in Exhibit "B" attached hereto. If any Royalty Inter- 24
25 est in a Tract or Tracts should be lost by title failure or other- 25
26 wise in whole or in part, during the term of this agreement, then 26
27 the Royalty Interest of the party representing himself to be the 27
28 owner thereof shall be reduced proportionately and the interest 28
29 of other parties shall be adjusted accordingly. 29

30 17. RENTAL SETTLEMENT. Rentals or minimum royalties due on 30
31 leases committed hereto shall be paid by Working Interest Owners 31

1 responsible therefor under existing contracts, laws and regula- 1
2 tions provided that nothing herein contained shall operate to 2
3 relieve the lessees of any land from their respective lease 3
4 obligations for the payment of any rental or minimum royalty in 4
5 lieu thereof, due under their leases. Rental or minimum royalty 5
6 for lands of the United States of America subject to this agree- 6
7 ment shall be paid at the rate specified in the respective leases 7
8 from the United States of America, unless rental or minimum 8
9 royalty is waived, suspended or reduced by law or by approval 9
10 of the Secretary or his duly authorized representative. 10

11 18. CONSERVATION. Operations hereunder and production of 11
12 Unitized Substances shall be conducted to provide for the most 12
13 economical and efficient recovery of said substances without 13
14 waste, as defined by or pursuant to Federal and State laws and 14
15 regulations. 15

16 19. DRAINAGE. The Unit Operator shall take such measures 16
17 as the Supervisor deems appropriate and adequate to prevent 17
18 drainage of Unitized Substances from Unitized Land by wells on 18
19 land not subject to this agreement. 19

20 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED. 20

21 20.1 The terms, conditions and provisions of all leases, 21
22 subleases and other contracts relating to exploration, drilling, 22
23 development or operation for oil or gas on lands committed to 23
24 this agreement are hereby expressly modified and amended to the 24
25 extent necessary to make the same conform to the provisions 25
26 hereof, but otherwise to remain in full force and effect, and 26
27 the parties hereto hereby consent that the Secretary, by his 27
28 approval hereof, or by the approval hereof by his duly authorized 28
29 representative, does hereby establish, alter, change or revoke 29
30 the drilling, producing, rental, minimum royalty and royalty 30

1 requirements of Federal leases committed hereto and the regula- 1
2 tions of Federal leases committed hereto and the regulations in 2
3 respect thereto to conform said requirements to the provisions 3
4 of this agreement. 4

5 20.2 Without limiting the generality of the foregoing, all 5
6 leases, subleases and contracts are particularly modified in 6
7 accordance with the following: 7

8 (a) The development and operation of lands subject to 8
9 this agreement under the terms hereof shall be deemed full per- 9
10 formance of all obligations for development and operation with 10
11 respect to each and every separately owned Tract subject to this 11
12 agreement, regardless of whether there is any development of 12
13 any particular Tract of the Unitized Land. 13

14 (b) Drilling, producing or secondary recovery opera- 14
15 tions performed hereunder upon any Tract of Unitized Lands shall 15
16 be accepted and deemed to be performed upon and for the benefit 16
17 of each and every Tract of Unitized Land, and no lease shall be 17
18 deemed to expire by reason of failure to drill or produce wells 18
19 situated on land therein embraced. 19

20 (c) Suspension of drilling or producing operations on 20
21 all Unitized Lands pursuant to direction or consent of the 21
22 Secretary and Commissioner or their duly authorized representa- 22
23 tives, shall be deemed to constitute such suspension pursuant to 23
24 such direction or consent as to each and every Tract of Unitized 24
25 Lands. A suspension of drilling or producing operations on 25
26 specified lands shall be applicable only to such lands. 26

27 (d) Each lease, sublease or contract relating to the 27
28 exploration, drilling, development or operation for oil and gas 28

1 which by its terms might expire prior to the termination of 1
2 this agreement, is hereby extended beyond any such term so pro- 2
3 vided therein, so that it shall be continued in full force and 3
4 effect for and during the term of this agreement. 4

5 (e) Any lease embracing lands of the State of New Mexico 5
6 which is made subject to this agreement shall continue in force 6
7 beyond the term provided therein as to the lands committed hereto 7
8 until the termination hereof. 8

9 (f) Any lease embracing lands of the State of New Mexico 9
10 having only a portion of its land committed hereto shall be segre- 10
11 gated as to that portion committed and that not committed, and 11
12 the terms of such lease shall apply separately to such segregated 12
13 portions commencing as of the effective date hereof. Provided, 13
14 however, that notwithstanding any of the provisions of this agree- 14
15 ment to the contrary, such lease shall continue in full force and 15
16 effect beyond the terms provided therein as to all lands embraced 16
17 in such lease if oil or gas is, or has heretofore been, dis- 17
18 covered in paying quantities on some part of the lands embraced 18
19 in such lease committed to this agreement, or so long as a portion 19
20 of the Unitized Substances produced from the Unit Area is, under 20
21 the terms of this agreement, allocated to the portion of the lands 21
22 covered by such lease committed to this agreement, or, at any time 22
23 during the term hereof, as to any lease that is then valid and 23
24 subsisting and upon which the lessee or the Unit Operator is 24
25 then engaged in bona fide drilling, reworking, or secondary 25
26 recovery operations on any part of the lands embraced in such 26
27 lease, then the same as to all lands embraced therein shall remain 27
28 in full force and effect so long as such operations are diligently 28
29 prosecuted, and, if they result in the production of oil or gas, 29
30 said lease shall continue in full force and effect as to all of 30

1 the lands embraced therein, so long thereafter as oil or gas in 1
2 paying quantities is being produced from any portion of said 2
3 lands. 3

4 (g) The segregation of any Federal lease committed to 4
5 this agreement is governed by the following provision in the 5
6 fourth paragraph of Article 17(j) of the Mineral Leasing Act, as 6
7 amended by the Act of September 2, 1960 (74 Stat. 781-784): 7

8 Any (Federal) lease heretofore or hereafter committed 8
9 to any such (Unit) plan embracing lands that are in part 9
10 within and in part outside of the area covered by any such 10
11 plan shall be segregated into separate leases as to the 11
12 lands committed and the lands not committed as of the 12
13 effective date of unitization; provided, however, that 13
14 any such lease as to the non-unitized portion shall con- 14
15 tinue in force and effect for the term thereof but for 15
16 not less than two years from the date of such segregation 16
17 and so long thereafter as oil or gas is produced in pay- 17
18 ing quantities. 18

19 21. COVENANTS RUN WITH LAND. All terms and conditions 19
20 herein contained shall be construed to be covenants running with 20
21 the land with respect to the interest of the parties hereto and 21
22 their successors in title until this agreement terminates, and 22
23 any grant, transfer, conveyance or any passage of any interest 23
24 in land or leases subject hereto, no matter how accomplished, 24
25 shall be and hereby is conditioned upon the assumption of all 25
26 privileges and obligations by such successor in interest. By 26
27 way of illustration, but not limitation, if any Working Interest 27
28 Owner shall, after executing this agreement, create any over- 28
29 riding royalty, production payment or any similar interest or 29
30 interests, the new owner or owners of such interest or interests 30
31 shall be bound by the terms of this agreement and the Unit 31
32 Operating Agreement. No assignment or transfer of any Working 32

1 Interest subject hereto shall be binding upon Unit Operator 1
2 until the first day of the calendar month after Unit Operator 2
3 is furnished with the original or acceptable photostatic or 3
4 certified copy, of the recorded instrument of transfer; and no 4
5 assignment or transfer of a Royalty Interest subject hereto 5
6 shall be binding upon the Working Interest Owner responsible 6
7 therefor until the first day of the calendar month after said 7
8 Working Interest Owner is furnished with the original, or accept- 8
9 able photostatic or certified copy, of the recorded instrument 9
10 of transfer. 10

11 22. EFFECTIVE DATE AND TERM. 11

12 22.1 This agreement shall become binding upon each party 12
13 who executes or ratifies it as of the date of execution or rati- 13
14 fication by such party and shall become effective as of 7:00 A.M. 14
15 of the first day of the calendar month next following: 15

16 (a) The execution or ratification of this agreement 16
17 and the Unit Operating Agreement by Working Interest Owners own- 17
18 ing Tracts with a combined Unit Participation of at least eighty- 18
19 five percent (85%), and the execution or ratification of this 19
20 agreement by Royalty Owners owning Tracts with a combined inter- 20
21 est of at least sixty-five percent (65%) of the Royalty Interest 21
22 in the Unit Area; and 22

23 (b) The approval of this agreement by the Supervisor 23
24 and Commissioner; and 24
25 provided, that if (a) and (b) above are not accomplished on or 25
26 before July 1, 1972, this agreement shall ipso facto expire on 26
27 said date (hereinafter called "expiration date") and thereafter 27
28 be of no further force or effect unless prior thereto this 28
29 agreement has been executed or ratified by Working Interest 29
30 Owners owning a combined participation of at least eighty percent 30

(80%), and that Working Interest Owners owning in the aggregate sixty-five percent (65%) or more of the total participation committed to this agreement have decided to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a) and (b) above are not accomplished on or before said extended expiration date, this agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect.

At least one counterpart of this agreement shall be filed for record in the office of the County Clerk of Eddy County, New Mexico, by the Unit Operator.

22.2 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.

22.3 The term of this agreement shall be for and during the time that Unitized Substances are produced in quantities sufficient to pay for the cost of producing same from wells on the Unitized Land and so long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and if production is restored so long thereafter as Unitized Substances are produced as aforesaid.

22.4 This agreement may be terminated at any time for any other reason with the approval of the Supervisor and Commissioner by at least three Working Interest Owners owning seventy-five percent (75%) of the Unit Participation. Notice of any such termination shall be given to all parties hereto, and a copy

1 filed by Unit Operator in the office of the County Clerk of Eddy 1
2 County, New Mexico. 2

3 22.5 Upon termination of this agreement, Unit Operations 3
4 shall cease and the parties hereto shall be governed by the terms 4
5 and provisions of the leases and contracts affecting the separate 5
6 Tracts. 6

7 22.6 If not otherwise provided by the leases unitized under 7
8 this agreement, Royalty Owners hereby grant Working Interest 8
9 Owners a period of six (6) months after termination of this 9
10 agreement in which to salvage, sell, distribute or otherwise 10
11 dispose of the personal property and facilities used in connec- 11
12 tion with Unit Operations. 12

13 23. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. 13

14 23.1 All production and the disposal thereof shall be in 14
15 conformity with allocations and quotas made or fixed by any duly 15
16 authorized person or regulatory body under any Federal or State 16
17 statute. The Director is hereby vested with authority to alter 17
18 or modify from time to time, in his discretion, the rate of 18
19 prospecting and development and within the limits made or fixed 19
20 by the Commission to alter or modify the quantity and rate of 20
21 production under this agreement, such authority being hereby 21
22 limited to alteration or modification in the public interest, 22
23 the purpose thereof and the public interest to be served thereby 23
24 to be stated in the order of alteration or modification; provided, 24
25 further, that no such alteration or modification shall be effec- 25
26 tive as to any land of the State of New Mexico as to the rate of 26
27 prospecting and development in the absence of the specific writ- 27
28 ten approval thereof by the Commissioner and as to any lands of 28
29 the State of New Mexico or privately owned lands subject to this 29
30 agreement as to the quantity and rate of production in the absence 30
31 of specific written approval thereof by the Commission. 31

23.2 Powers in this Section vested in the Director, the Commissioner 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, and thereafter subject to administrative appeal before becoming final.

24. NON-DISCRIMINATION. In connection with the performance of work under this agreement, the 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.

25. APPEARANCES. Unit Operator, after notice to other parties affected, shall have the right to appear for or on behalf of any and all interests affected hereby before the Department, the Commissioner or the Commission, and to appeal from any order issued under the rules and regulations of the Department or the Commissioner 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 Commissioner 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.

26. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

1 27. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement 1
2 contained shall be construed as a waiver of any party hereto of 2
3 the right to assert any legal or constitutional right or defense 3
4 as to the validity or invalidity of any law of the State of New 4
5 Mexico or of the United States or the rules or regulations issued 5
6 thereunder in any way affecting such party, or as a waiver by any 6
7 such party of any right beyond his or its authority to waive. 7

8 28. PERSONAL PROPERTY EXCEPTED. Each of the Working Interest 8
9 Owners hereto has heretofore individually placed in or on the 9
10 wells drilled by such Working Interest Owner on its leases or 10
11 interests and in or on the land covered by said leases or inter- 11
12 ests certain casing, casing flanges, tubing, rods, pipes, tanks 12
13 as well as other lease and well equipment or other personal prop- 13
14 erty (to all of which the provisions hereof are applicable whether 14
15 similar or dissimilar in nature to the foregoing enumeration). 15
16 As to all of such equipment, the installing Working Interest Owner 16
17 has the contractual right in and under its respective leases to 17
18 remove same from the premises, and the installation thereof by 18
19 said Working Interest Owner was with the intention and understand- 19
20 ing that all of such equipment would be and remain personal prop- 20
21 erty and that no part thereof would be or become fixtures to the 21
22 realty. The Working Interest Owners hereto have dealt separately 22
23 among themselves and do hereby make a separate agreement with 23
24 each other with respect to such lease and well equipment and all 24
25 other such personal property located in or on the well or their 25
26 respective leases, on the one hand, and the realty, leasehold 26
27 estates, and the wells (exclusive of all equipment in or on said 27
28 wells) located on and the Unitized Substances underlying the Unit 28
29 Area, on the other hand. To that end, the Working Interest Owners 29
30 have severed, and do hereby sever for all purposes of this 30

1 agreement, all such lease and well equipment and other such 1
2 personal property which may be located in or on the respective 2
3 leases or in or on the wells thereon from the real leasehold 3
4 estates, and the wells located on and the Unitized Substances 4
5 underlying the Unit Area. To conform their respective invest- 5
6 ments in such equipment, Working Interest Owners have made a 6
7 separate agreement with each other with respect thereto. 7

8 29. UNAVOIDABLE DELAY. All obligations under this agreement 8
9 requiring the Unit Operator to commence or continue secondary 9
10 recovery operations or to operate on or produce Unitized Sub- 10
11 stances from any of the lands covered by this agreement shall be 11
12 suspended while, but only so long as the Unit Operator, despite 12
13 the exercise of due care and diligence, is prevented from com- 13
14 plying with such obligations, in whole or in part, by strikes, 14
15 acts of God, Federal, State or municipal law or agency, unavoid- 15
16 able accident, uncontrollable delays in transportation, inability 16
17 to obtain necessary materials in open market, or other matters 17
18 beyond the reasonable control of the Unit Operator whether simi- 18
19 lar to matters herein enumerated or not. No Unit obligation which 19
20 is suspended pursuant to this Section shall become due less 20
21 than thirty (30) days after it has been determined that the sus- 21
22 pension is no longer applicable. The determination of creditable 22
23 "unavoidable delay" time shall be made by Unit Operator subject to 23
24 the approval of the Supervisor and the Commissioner. 24

25 30. LOSS OF TITLE. 25

26 30.1 If any Tract of Unitized Land ceases to have sufficient 26
27 Working Interest or Royalty Interest committed to this agreement 27
28 to meet the conditions of Section 14 because of failure of title 28
29 to any party hereto, such Tract shall be regarded as not committed 29
30 hereto as of 7:00 A.M. on the first day of the calendar month in 30

1 which such failure of title is finally determined; provided, 1
2 however, that no such Tract shall be so regarded if same can be 2
3 requalified under said Section 14 within ninety (90) days after 3
4 the date on which such title failure was finally determined. If 4
5 any such Tract cannot be so requalified, Unit Operator shall re- 5
6 compute the Tract Participation of each Tract of Unitized Land 6
7 remaining subject to this agreement so that such Tract Participa- 7
8 tion shall remain in the same ratio one to another. Thereafter, 8
9 Unit Operator shall revise Exhibit "C" conformably with such 9
10 recomputation. Each such revised exhibit shall be effective at 10
11 7:00 A.M. on the first day of the calendar month in which such 11
12 failure of title is finally determined. If title to a Working 12
13 Interest fails, the rights and obligations of Working Interest 13
14 Owners by reason of such failure shall be governed by the Unit 14
15 Operating Agreement. If title to a Royalty Interest fails, but 15
16 the Tract to which it relates remains committed to this agree- 16
17 ment, the Royalty Owner whose title failed shall not be entitled 17
18 to participate hereunder insofar as its participation is based 18
19 on such lost Royalty Interest. In the event of a dispute as to 19
20 the title of any Working or Royalty Interest, or other interest 20
21 subject hereto, payment or delivery on account thereof may be 21
22 withheld without liability or interest until the dispute is 22
23 finally settled; provided, that as to Federal or State land or 23
24 leases, no payments of funds due the United States of America or 24
25 the State of New Mexico shall be withheld, but such funds shall 25
26 be deposited as directed by the Supervisor or the Commissioner 26
27 (as the case may be) to be held as unearned money pending final 27
28 settlement of the title dispute, and then applied as earned or 28
29 returned in accordance with such final settlement. 29

30 30.2 Unit Operator, as such, is relieved from any responsi- 30
31 bility for any defect or failure of any title hereunder. 31

1 31. BORDER AGREEMENTS. Subject to the approval of the 1
2 Supervisor, the Unit Operator upon the concurrence of at least 2
3 three (3) Working Interest Owners owning at least sixty-five per- 3
4 cent (65%) of Unit Participation may enter into a border- 4
5 protection agreement or agreements with the Working Interest 5
6 Owners of lands adjacent to the committed Tracts with respect to 6
7 the operations in the border area for the maximum ultimate re- 7
8 covery, conservation purposes and proper protection of the par- 8
9 ties and interests. 9

10 32. MATHEMATICAL ERRORS. It is hereby agreed by all parties 10
11 to this agreement that Unit Operator is empowered to correct any 11
12 mathematical or clerical errors which might exist in the pertinent 12
13 exhibits to this agreement upon approval of such changes by the 13
14 Supervisor and Commissioner. 14

15 33. NON-JOINDER AND SUBSEQUENT JOINDER. 15

16 33.1 Joinder by any Royalty and Record Owner, at any time, 16
17 must be accompanied by appropriate joinder of the corresponding 17
18 Working Interest Owner in order for the interest of such Royalty 18
19 and Record Owner to be regarded as committed. Joinder to the 19
20 Unit Agreement by a Working Interest Owner, at any time, must be 20
21 accompanied by appropriate joinder to the Unit Operating Agreement 21
22 in order for such interest to be regarded as committed to this 22
23 Unit Agreement. 23

24 33.2 Any oil or gas interest in the Unitized Formation not 24
25 committed hereto prior to submission of this agreement for final 25
26 approval may thereafter be committed hereto upon compliance 26
27 with the applicable provisions of this Section and of Section 14 27
28 (Tracts Qualified for Participation) hereof, at any time up to 28
29 the effective date hereof on the same basis of participation as 29
30 provided in said Section 14, by the owner or owners thereof 30

1 subscribing, ratifying or consenting in writing to this agree- 1
2 ment and, if the interest is a Working Interest, by the owner 2
3 of such interest subscribing also to the Unit Operating Agree- 3
4 ment. 4

5 33.3 It is understood and agreed, however, that from and 5
6 after the effective date hereof the right of subsequent joinder 6
7 by a Working Interest Owner as provided in this Section shall be 7
8 subject to such requirements or approvals and on such equitable 8
9 basis as may be agreed upon by Working Interest Owners having 9
10 not less than eighty percent (80%) of Unit Participation and 10
11 approved by the Supervisor and Commissioner. Such subsequent 11
12 joinder by a proposed Working Interest Owner must be evidenced 12
13 by his execution or ratification of this agreement and the Unit 13
14 Operating Agreement. Such joinder by a proposed Royalty Owner 14
15 must be evidenced by his execution, ratification or consent of 15
16 this agreement and must be consented to in writing by the Working 16
17 Interest Owner responsible for the payment of any benefits that 17
18 may accrue hereunder in behalf of such proposed Royalty Owner. 18
19 Except as may be otherwise herein provided, subsequent joinder 19
20 to this agreement shall be effective at 7:00 A.M. as of the 20
21 first day of the month following the filing with the Supervisor 21
22 of duly executed counterparts of any and all documents necessary 22
23 to establish effective commitment of any Tract or interest to this 23
24 agreement, unless objection to such joinder by the Supervisor 24
25 or the Commissioner is duly made within sixty (60) days after 25
26 such filing. 26

27 34. TAXES. Each party hereto shall, for its own account, 27
28 render and pay its share of any taxes levied against or measured 28

1 by the amount or value of the Unitized Substances produced from 1
2 the Unitized Land; provided, however, that if it is required or 2
3 if it be determined that the Unit Operator or the several Work- 3
4 ing Interest Owners must pay or advance said taxes for the 4
5 account of the parties hereto, it is hereby expressly agreed 5
6 that the parties so paying or advancing said taxes shall be 6
7 reimbursed therefor by the parties hereto, including Royalty 7
8 Owners, who may be responsible for the taxes on their res- 8
9 pective allocated share of said Unitized Substances. No such 9
10 taxes shall be charged to the United States or the State of New 10
11 Mexico, nor to any lessor who has a contract with a lessee which 11
12 requires his lessee to pay such taxes. 12

13 35. CONFLICT OF SUPERVISION. Neither the Unit Operator nor 13
14 the Working Interest Owners, nor any of them, shall be subject 14
15 to any forfeiture, termination or expiration of any rights 15
16 hereunder or under any leases or contracts subject hereto, or 16
17 to any penalty or liability on account of delay or failure in 17
18 whole or in part to comply with any applicable provisions 18
19 thereof, to the extent that the said Unit Operator or the 19
20 Working Interest Owners, or any of them, are hindered, delayed 20
21 or prevented from complying therewith by reason of failure of 21
22 the Unit Operator to obtain, in the exercise of due diligence, 22
23 the concurrence of proper representatives of the United States 23
24 or of the State of New Mexico in and about any matters or 24
25 things concerning which it is required herein that such con- 25
26 currence be obtained. 26

27 36. NO PARTNERSHIP. The duties, obligations and liabilities 27
28 of the parties hereto are intended to be several and not joint or 28
29 collective. This agreement is not intended to create, and shall 29

1 not be construed to create, an association or trust, or to impose 1
2 a partnership duty, obligation or liability with regard to any 2
3 one or more of the parties hereto. Each party hereto shall be 3
4 individually responsible for its own obligations as herein pro- 4
5 vided. 5

6 37. PRODUCTION AS OF THE EFFECTIVE DATE. 6

7 37.1 Unit Operator shall make a proper and timely gauge of 7
8 all leases and other tanks on Unitized Land in order to ascertain 8
9 the amount of merchantable oil above the pipeline connection in 9
10 such tanks as of 7:00 A.M. on the effective date hereof. The oil 10
11 that is a part of the prior allowable of the wells from which it 11
12 was produced shall be and remain the property of the interest 12
13 owner entitled thereto, the same as if the Unit had not been 13
14 formed; and the responsible Working Interest Owner shall promptly 14
15 remove said oil from Unitized Land. Any such oil not so removed 15
16 may be sold by Unit Operator for the account of such Working 16
17 Interest Owner, subject to the payment of all royalty to Royalty 17
18 Owners under the applicable lease or leases and other contracts. 18
19 The oil that is in excess of the prior allowable of the wells from 19
20 which it was produced shall be regarded as Unitized Substances 20
21 produced after effective date hereof. 21

22 37.2 If, as of the effective date hereof, any Tract is 22
23 overproduced with respect to the allowable of the wells on that 23
24 Tract and the amount of overproduction has been sold or otherwise 24
25 disposed of, such overproduction shall be regarded as a part of 25
26 the Unitized Substances produced after the effective date hereof 26
27 and shall be charged to such Tract as having been delivered to the 27
28 parties entitled to Unitized Substances allocated to such Tract. 28

29 38. COUNTERPARTS. This agreement may be executed in any 29
30 number of counterparts, no one of which needs to be executed by 30


1 all parties and may be ratified or consented to by separate 1
2 instruments in writing specifically referring hereto, and shall 2
3 be binding upon all those parties who have executed such a count- 3
4 erpart, ratification or consent hereto with the same force and 4
5 effect as if all parties had signed the same document, and re- 5
6 gardless of whether or not it is executed by all other parties 6
7 owning or claiming an interest in the land within the above des- 7
8 cribed Unit Area. 8

9 IN WITNESS WHEREOF, the parties hereto have executed this 9
10 agreement on the dates shown opposite their respective signatures. 10

ATTEST:

PENASCO CORPORATION


Secretary

BY: 
Vice President

Dated: Feb 4, 1972

WORKING INTEREST OWNERS

Date _____

Date _____

Date _____

Date _____

Date _____

Date _____

(INDIVIDUAL)

STATE OF)
 : ss.
COUNTY OF)

The foregoing instrument was acknowledged before me
this ____ day of _____, 1972, by _____
and _____, his wife.

My commission expires: _____

Notary Public

(CORPORATE)

STATE OF)
 : ss.
COUNTY OF)

The foregoing instrument was acknowledged before me
this 4th day of February, 1972, by David C. Clark,

President of Bedrock Corporation,
a corporation, on behalf of said corporation.

My commission expires: _____
9-5-75

Margaret Bean

Notary Public

(PARTNERSHIP)

STATE OF)
 : ss.
COUNTY OF)

The foregoing instrument was acknowledged before me
this ____ day of _____, 1972, by _____
_____, partner(s) on behalf of _____
_____, a partnership.

My commission expires: _____

Notary Public

R. 31 E.

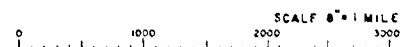


EXHIBIT "B"
PENASCO SHUGART QUEEN SAND UNIT
EDDY COUNTY, NEW MEXICO
T. 18 S., R. 31 E.

| tract No. | Description of Land | No. of Acres | Serial No. and Expiration Date | Basic Royalty & Percentage | Lessee of Record | Overriding Roy- alty & Percentage | Working Interest & Percentage |
|---------------------|------------------------|-----------------|-----------------------------------|-------------------------------|------------------|---|----------------------------------|
| <u>Federal Land</u> | | | | | | | |
| 1 | Sec. 9: S/2 SW/4 | 80 | LC 029389(c) 7-31-79 | U. S. A. All (Schedule C) | Penasco Corp. | Sabine Royalty Corp. 0.5% Ethel Lewis McGuire 0.5% El Paso National Bank, Testamentary Trustee under will of M. E. Baish 0.5% Ethel P. Erwin 0.5% Kenneth McIntosh 0.5% Virginia Simon 1.0% Arnold P.Scharbauer 1.0% Rena Shugart 1.3333% Margaret Jane Johnston 0.3334% Ralph A. Shugart, Jr. 0.3333% John W. Bockman 0.125% J. B. Bockman 0.875% Hondo Oil and Gas Company 4.1667% | Penasco Corp.- All |

| Tract No. | Description of Land | No. of Acres | Serial No. and Expiration Date | Basic Royalty & Percentage | Lessee of Record | Overriding Royalty & Percentage | Working Interest & Percentage |
|--|---------------------|--------------|--------------------------------|----------------------------|-----------------------------|-------------------------------------|--|
| <u>State Land</u> | | | | | | | |
| 6 | Sec.16: SW/4 NW/4 | 40 | E-882 HBP | State of New Mexico 12.5% | Mobil Oil Corp. | Mobil Oil Corp. Jimmy E. Collier | Penasco Corp.- All 6.25% 1.5625% |
| 7 | Sec.16: N/2 NW/4 | 80 | K-2646-1 8-21-72 | State of New Mexico 12.5% | American Petrofina of Texas | American Petrofina of Texas- All | |
| 2 STATE TRACTS, 120 ACRES, OR 23.1% of UNIT AREA | | | | | | | |

TOTAL: 7 TRACTS, 520 ACRES IN ENTIRE UNIT AREA

EXHIBIT "C"
PENASCO SHUGART QUEEN SAND UNIT
EDDY COUNTY, NEW MEXICO
T. 18 S., R. 31 E.

| Tract No. | Description of Land | Working Interest Owner and Percentage | Percentage Participation of Tract |
|--------------|------------------------|--|---|
| 1 | Sec. 9: S/2 SW/4 | Penasco Corporation 100% | 31.8649 |
| 2 | Sec.17: NE/4 | Apco Oil Corporation 100% | 40.7257 |
| 3 | Sec. 8: S/2 SE/4 | Penasco Corporation 100% | 18.2795 |
| 4 | Sec.17: SE/4 NW/4 | Penasco Corporation 100% | 2.8778 |
| 5 | Sec.17: NE/4 NW/4 | Penasco Corporation 100% | 1.9697 |
| 6 | Sec.16: SW/4 NW/4 | Penasco Corporation 100% | 2.6538 |
| 7 | Sec.16: N/2 NW/4 | American Petrofina of Texas 100% | 1.6286 |
| TOTAL | | | <u>100.0000</u> |

STATE EXAMINER UTZ
OIL CLAIMS VERIFICATION COMMISSION

CASE NO. 4766
Submitted 07/11/11
Hearing Date 07/11/11

PENASCO - SHUGART UNIT AREA
WELL DATA

Submitted 07/11/11
Hearing Date 07/11/11

ELEVATION DATE COMPLETED INITIAL PRODUCTION PAY ZONE OIL STRING TOTAL DEPTH SHOT PRESENT STATUS PRIMARY RECOVERY 1-1-71 1970 PRODUCT

ERIAN PETROFINA

State K-2646 (N/2 NW/4 Sec. 16)

| | | | | | | | | | | |
|-------|--------------------|---------|-----|---------|------------|------|----------|---------------|-------|---|
| No. 1 | 660 FNL & 330 FWL | 11-7-39 | Dry | None | None | 3635 | 100 qts. | P & A 11-7-39 | 0 | 0 |
| No. 2 | 330 FNL & 330 FWL | 3-4-42 | 36 | 3176-96 | 6" @ 2665' | 3198 | 100 qts. | P & A 9-15-46 | 4,620 | 0 |
| No. 3 | 330 FNL & 1650 FWL | 4-15-42 | 66 | 3204-30 | 6" @ 2470' | 3230 | 100 qts. | P & A 9-15-46 | 3,551 | 0 |

CO

Ginsberg "A" LC 029393(c) (NE/4 Sec. 17)

| | | | | | | | | | | |
|-------|---------------------|----------|-----|---------|------------|------|----------|-----------|--------|-----|
| No. 1 | 660 FNL & 660 FEL | 10-21-39 | 157 | 3154-87 | 7" @ 3025' | 3187 | 160 qts. | Producing | 74,937 | 663 |
| No. 2 | 1980 FNL & 1980 FEL | 7-17-40 | 112 | | 7" @ 3012' | 3235 | 100 qts. | Producing | 33,119 | 163 |
| No. 3 | 990 FNL & 1980 FEL | 9-1-40 | 160 | 3145- | 7" @ 3016' | 3183 | 100 qts. | Producing | 50,449 | 329 |
| No. 4 | 1650 FNL & 990 FEL | 10-25-40 | 125 | 3165-90 | 7" @ 3047' | 3198 | 100 qts. | Producing | 44,952 | 330 |

PENASCO

Erwin LC 029389(c) (S/2 SW/4 Sec. 9)

| | | | | | | | | | | |
|-------|--------------------|----------|-----|-----------|------------|------|----------|-----------|--------|-----|
| No. 1 | 660 FSL & 660 FWL | 6-12-39 | 150 | 3175-92 | 7" @ 3005' | 3210 | 160 qts. | Producing | 80,692 | 154 |
| No. 2 | 330 FSL & 1980 FWL | 11-28-39 | 210 | 3192-3227 | 7" @ 3047' | 3230 | 100 qts. | Producing | 78,952 | 236 |

Ginsberg "A" LC 070133 (S/2 SW/4 Sec. 8)

| | | | | | | | | | | |
|-------|--------------------|---------|-----|---------|----------------|------|-------------|---------------|--------|---|
| No. 1 | 330 FSL & 1650 FEL | 1-31-58 | 17 | 3112-54 | 5 1/2" @ 3406' | 3406 | Frac 10,000 | Shut in | 4,849 | 0 |
| No. 2 | 660 FSL & 660 FEL | 7-23-38 | 60 | 3147-83 | 7" @ 3073' | 3185 | 140 qts. | Shut in | 57,487 | 0 |
| No. 3 | 660 FSL & 1980 FEL | 9-10-40 | 200 | 3102-55 | 7" @ 3000' | 3160 | 140 qts. | P & A 3-20-47 | 29,373 | 0 |

Ginsberg "B" LC 070134 (SE/4 NW/4 Sec. 17)

| | | | | | | | | | | |
|-------|---------------------|---------|----|---------|------------|------|----------|---------------|--------|---|
| No. 1 | 1980 FNL & 1980 FWL | 1-22-41 | 15 | 3135-70 | 7" @ 3020' | 3176 | 200 qts. | P & A 3-15-49 | 14,438 | 0 |
|-------|---------------------|---------|----|---------|------------|------|----------|---------------|--------|---|

Ginsberg "C" LC 042819 (NE/4 NW/4 Sec. 17)

| | | | | | | | | | | |
|-------|--------------------|---------|-----|---------|------------|------|----------|---------------|-------|---|
| No. 2 | 660 FNL & 1980 FWL | 10-8-41 | 150 | 3150-60 | 7" @ 2994' | 3169 | 240 qts. | P & A 3-20-47 | 9,882 | 0 |
|-------|--------------------|---------|-----|---------|------------|------|----------|---------------|-------|---|

Magnolia State E-882 (SW/4 NW/4 Sec. 16)

| | | | | | | | | | | |
|-------|--------------------|---------|----|-----------|----------------|------|-------------|-----------|--------|-----|
| No. 1 | 1980 FNL & 660 FWL | 5-23-56 | 48 | 3198-3212 | 5 1/2" @ 3251' | 3474 | Frac 10,000 | Producing | 12,487 | 182 |
|-------|--------------------|---------|----|-----------|----------------|------|-------------|-----------|--------|-----|

5

PRODUCTION TABLE

| | <u>FEBRUARY OIL PRODUCTION</u> | <u>WATER</u> | <u>GAS</u> | <u>AVERAGE BOPD</u> |
|--------------------------------|------------------------------------|--------------|------------|-------------------------|
| <u>APCO</u> | | | | |
| Ginsberg "A" #1-A-17-18-31 | 31 | | | |
| #2-G | 21 | 29 | | 1 |
| #3-B | 23 | 28 | | 1 |
| #4-H | 22 | 26 | | 1 |
| | <u>97</u> | <u>30</u> | | <u>1</u> |
| | | 112 | | |
| <u>PENASCO CORPORATION</u> | | | | |
| Erwin #1-M-9-18-31 | 9 | | | |
| #2-N | <u>10</u> | | | |
| | 19 | | | |
| Magnolia St. #1-E-16-18-31 | 109 | | | |
| #2-M | <u>109</u> | | 67 | 4 |
| | 218 | | <u>68</u> | <u>4</u> |
| | | | 135 | 8 |

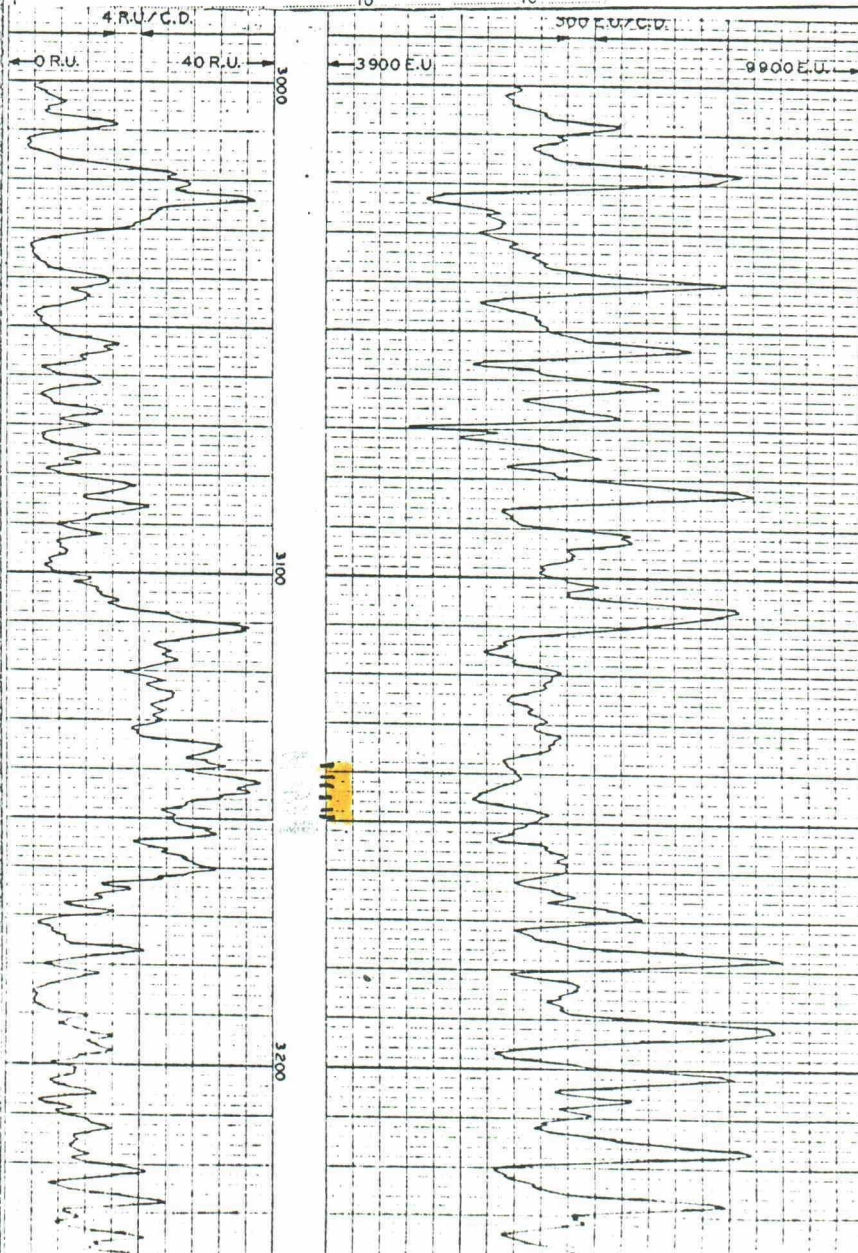
| | |
|--|--|
| BEFORE EXAMINER UTZ OIL CONSERVATION COMMISSION | |
| EXHIBIT NO. <u>4</u> | |
| CASE NO. <u>4700</u> | |
| Submitted by _____ | |
| Hearing Date _____ | |

Radioactivity Log

| | | |
|--|--|---------------|
| COMPANY: B. D. COLLIER | | Well Location |
| WELL: OHSBRO NO. 1 | PEN ASCO | |
| FIELD: NORTH SHUGART | WELL: OHSBRO NO. 1 | |
| LOCATION: 330' FSL. & 1650' FSL. OF SEC. 8, T-18-S, R-11-E | FIELD: NORTH SHUGART | |
| COUNTY: EDWY | LOCATION: 330' FSL. & 1650' FSL. OF SEC. 8, T-18-S, R-11-E | |
| STATE: NEW MEXICO | COUNTY: EDWY STATE: N. MEX. | |
| LOG ZERO: CABLE TOOL FLOOR | ELEV. 3674.5 | |
| DRLG. ZERO: CABLE TOOL FLOOR | ELEV. 3674.5 | |
| PERM. DATUM: C. T. P. IS 1.5' ABOVE G. L. | ELEV. 3673 | |

| | | |
|------------------------------|-----------|-----------|
| TYPE OF LOG | GAMMA RAY | W/SECTION |
| RUN NO. | ONE-14 | ONE-14 |
| DATE | 12-4-57 | 12-4-57 |
| TOTAL DEPTH (DRILLER) ft. | 3106 | 3106 |
| EFFECTIVE DEPTH (DRILLER) | 3106 | 3106 |
| TOP OF LOGGED INTERVAL | SURFACE | SURFACE |
| BOTTOM OF LOGGED INTERVAL | 3388 | 3100 |
| TYPE OF FLUID IN HOLE | DR | WT |
| FLUID LEVEL | 3396 | 3326 |
| MAXIMUM RECORDED TEMP. | | |
| SOURCE STRENGTH & TYPE | | SI013 |
| SOURCE SPACING - IN. | | 13.5 |
| DETECTOR CLASS | SCDT. | SCDT. |
| DETECTOR TYPE | D61 | D61 |
| LENGTH OF MEAS. DEVICE - IN. | 4 | 4 |
| O.D. OF INSTRUMENT - IN. | 3 5/8 | 3 5/8 |
| TIME CONSTANT - SECONDS | 2.0-0.9 | 2.0-0.9 |
| LOGGING SPEED FT./MIN. | 30-60 | 30-60 |
| STATISTICAL VARIATION - IN. | RECORDED | RECORDED |
| SENSITIVITY REFERENCE | 274 JIG | D368 |
| RECORDED BY | SUTTON & | GRIMOVIC |
| WITNESSED BY | COLLIER | COLLIER |

| WELL RECORD | | | | | |
|-------------|---------|--------|---------|------------------|----------------|
| RUN | BITSIZE | CASING | WT.-LB. | FROM WELL RECORD | FROM LOG |
| ONE | | 8 5/8 | | SURFACE TO 756 | SURFACE TO 763 |
| TWO | 8 | | | 756 TO 3406 | 763 TO 3401 |
| | | | | TO | TO |
| | | | | TO | TO |
| | | | | TO | TO |
| | | | | TO | TO |
| | | | | TO | TO |



BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION

EXHIBIT NO. 5

CASE NO. 4700

Submitted by

Hearing Date



McCULLOUGH

LOG COMPANY

RADIATION LOG



| | | |
|---|---|--|
| Location of Well SW-NE-SE-16- 185-31E Elev: G.L. 3663' | COMPANY <u>McCULLOUGH</u> <u>PENASCO</u> WELL <u>MAGNOLIA STATE # 1</u> FIELD <u>NORTH SUGAR</u> COUNTY <u>EDDY</u> STATE <u>NEW MEXICO</u> LOCATION _____ | LOG TICKET NO. _____ WELL <u>MAGNOLIA STATE # 1</u> FIELD <u>NORTH SUGAR</u> COUNTY <u>EDDY</u> STATE <u>NEW MEX.</u> LOCATION _____ |
| Log Meas. From <u>ROTARY TABLE</u> Elev. _____ | Drig. Meas. From <u>SAME</u> Elev. _____ | Perm. Datum <u>P. 5' ABOVE G. L.</u> Elev. _____ |

| | | | |
|------------------------------------|---|--------------------------|-----------------------------|
| Rec. Trk. No. <u>1190</u> | Trk. No. <u>104</u> | Trk. Oper. <u>TEAGUE</u> | Log Ticket No. <u>10030</u> |
| Date <u>5-18-56</u> | Maximum Recorded Temp. _____ | | |
| Total Depth (Driller) <u>3261'</u> | Effective Depth (McCullough) <u>3251'</u> | | |
| Type of Fluid in Hole <u>MUD</u> | Fluid Level <u>FULL</u> | | |
| O.D. of Instrument <u>3.5"</u> | Length of Device—Overall <u>11'</u> | | |
| Neutron Source # <u>N-174</u> | Spacing <u>19.5"</u> = <u>2.5</u> Setting _____ | | |
| Recorded By <u>KREST</u> | Witnessed By <u>MR. HALL</u> | | |

| Type of Log | GAMMA RAY | GAMMA RAY | NEUTRON | NEUTRON |
|--|--------------------------------|-----------|----------------------------|---------|
| Run No. | <u>ON 5"</u> | | <u>ON 5"</u> | |
| Top of Logged Interval | <u>1800'</u> | | <u>1800'</u> | |
| Bottom of Logged Interval | <u>3251'</u> | | <u>3251'</u> | |
| Time Constant | <u>3.25S-140-340CTS. (0-3)</u> | | <u>3.25S-500CTS. (0-3)</u> | |
| Logging Speed Ft./Min. | <u>28</u> | | <u>28</u> | |
| Statistical Variation | | | | |
| Sensitivity-Micro-Roentgens Per Hr. Per. Inch | <u>2.72</u> | | | |

| CASING RECORD (Customers) | | | | OPEN (BORE) HOLE RECORD | | | |
|---------------------------|--------------|-----------|-------------------|-------------------------|----------------------|--|--|
| Run No. | Size—In. | Wt.—Lb. | Interval | Bit Size | Interval | | |
| <u>1</u> | <u>8 5/8</u> | <u>24</u> | <u>0' to 175'</u> | <u>11</u> | <u>0' to 175'</u> | | |
| <u>2</u> | | | <u>to</u> | <u>7 7/8</u> | <u>175' to 3261'</u> | | |
| <u>3</u> | | | <u>to</u> | | | | |
| <u>4</u> | | | <u>to</u> | | | | |
| <u>5</u> | | | <u>to</u> | | | | |

REMARKS OR OTHER DATA

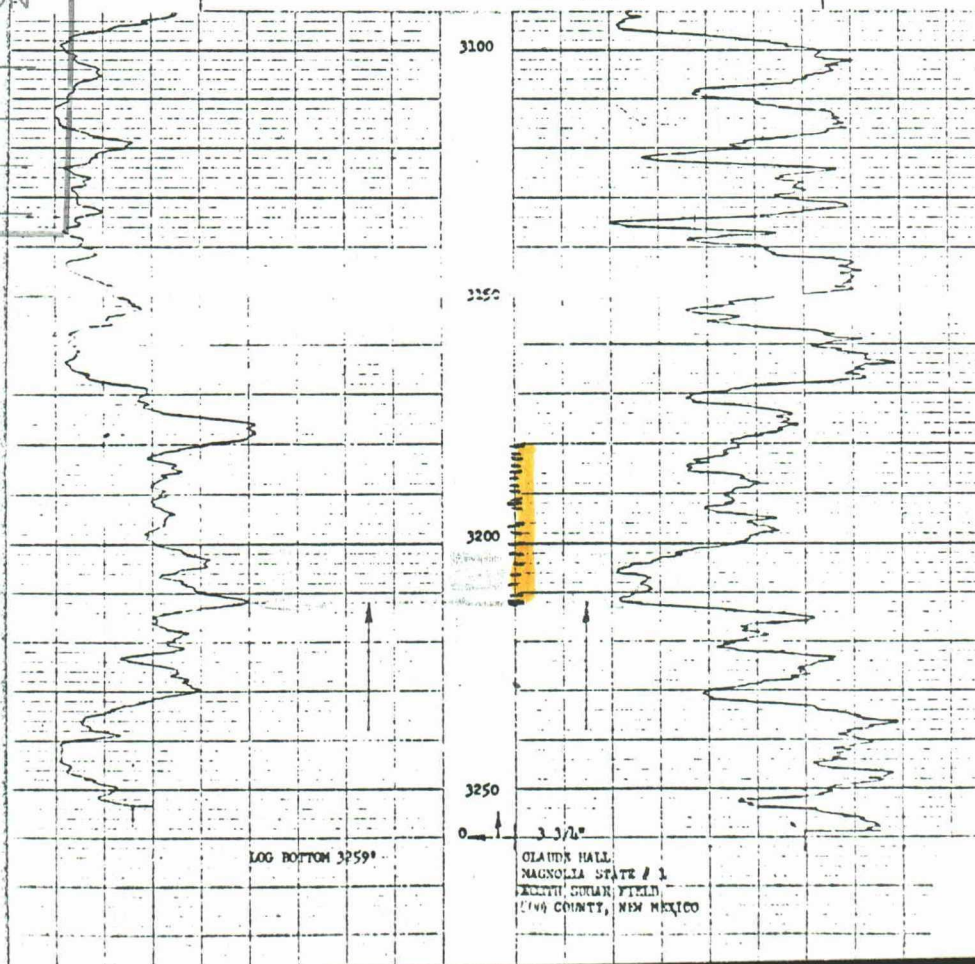
BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION

EXHIBIT NO. 5A

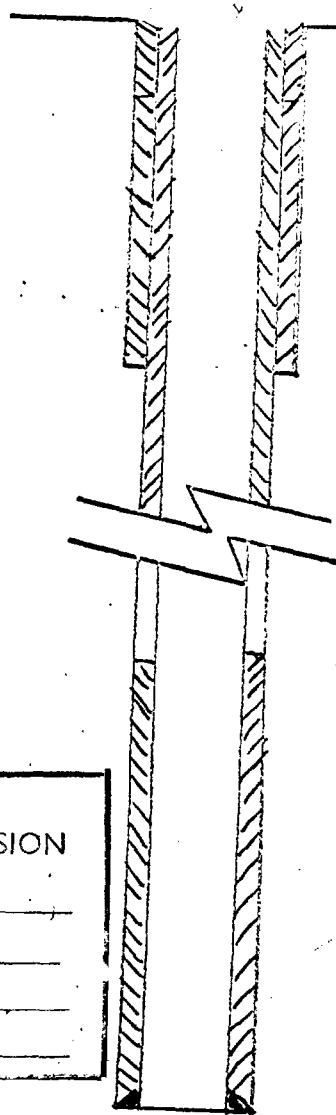
CASE NO. A700

Submitted by _____

Hearing Date _____



PENASCO
Magnolia State No. 1
660 FWL & 1980 FNL Section 16-18S-31E
G.L. Elev. 3671



8-17-56 pumped 200 sacks between
8 5/8" and 5 1/2" casing from the
surface

8 5/8" 24# casing @ 128'
cement circulated

Estimated top of cement-2751'

Perforated 3180-3212

6-26-56
5 1/2" 14# casing @ 3251' with 70 sacks

BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION

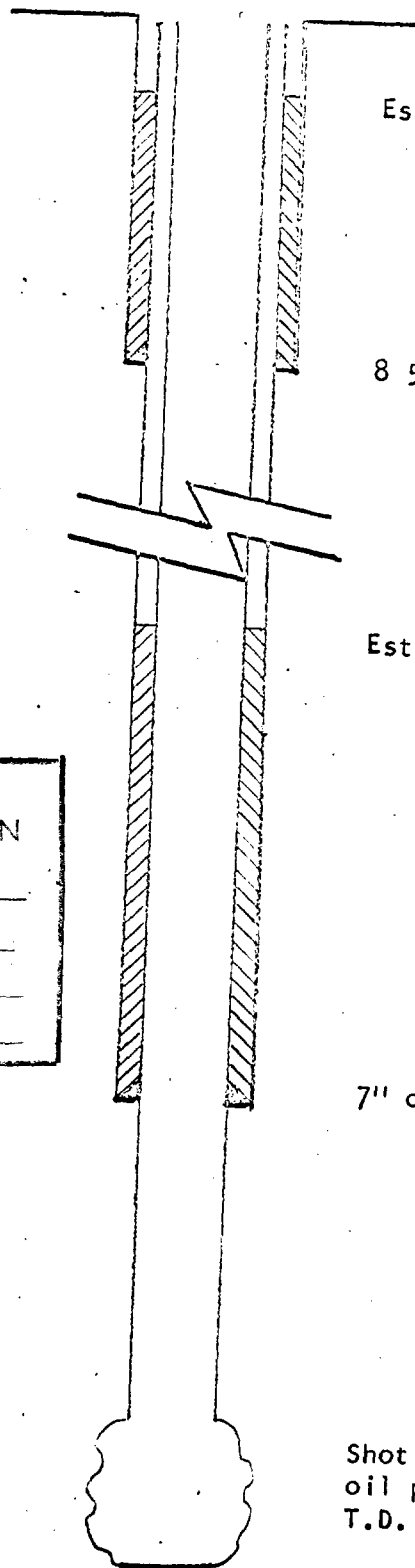
EXHIBIT NO. 6

CASE NO. 4700

Submitted by _____

Hearing Date _____

PENASCO
ERWIN No. 2
330 FSL & 1980' FWL Section 9-18S-31E
G.L. elev. 3684



Estimated top of cement-370'

8 5/8" casing @ 818 with 50 sacks

Estimated top of cement-1350'

7" casing @ 2960 with 105 sacks

Shot 3192-3227 with 100 quarts
oil pay zone 3200-3214
T.D. 3230-

BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION

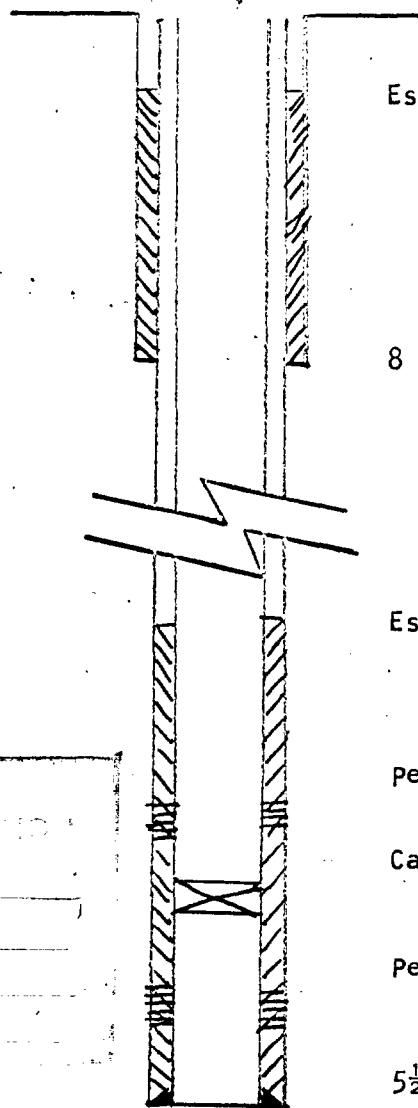
EXHIBIT NO. 6A

CASE NO. 4700

Submitted by _____

Hearing Date _____

PENASCO
 Ginsberg "A" No. 1
 330 FSL & 1650 FEL Section 8-18S-31E
 G.L. Elev. 3675



Estimated top of cement 308'

8 5/8" @ 756' with 50 sacks

Estimated top of cement=2727'

perforated 3139-49

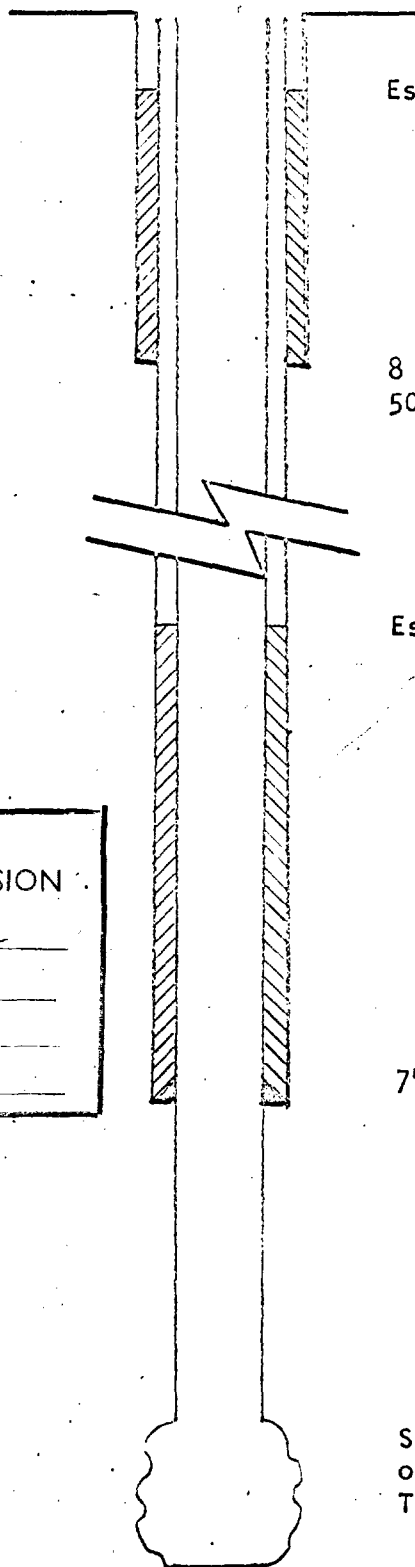
Cast iron plug to be set at 3300'

Perforated 3353-73

5 1/2" 14# casing 3406 with 100 sacks

| | |
|------|------|
| DATE | TIME |
| BY | 6B |
| 4700 | |

APCO
Ginsberg No. 2
1980' FNL & 1980 FEL Section 17-18S-31E



Estimated top of cement-311

8 5/8" 24# casing @ 759 with
50 sacks

Estimated top of cement-1482

7" 20# casing @ 3012 with 100 sacks

Shot with 130 quarts 3178-3206
oil pay zone 3168-3215
T.D. 3225

| | |
|--|------|
| BEFORE EXAMINER UTZ OIL CONSERVATION COMMISSION | |
| EXHIBIT NO. | 6C |
| CASE NO. | 4700 |
| Submitted by | |
| Hearing Date | |