

UNIT AGREEMENT

MARLISUE QUEEN UNIT

CHAVES COUNTY, NEW MEXICO

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CHAVES COUNTY, NEW MEXICO

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EXHIBIT A (Map of Unit Area)

EXHIBIT B (Schedule of Ownership)

EXHIBIT C (Schedule of Tract Participation)

UNIT AGREEMENT

MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of July, 1983, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "Parties hereto",

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the land subject to this Agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Sec. 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annot.), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap. 19, Art. 10, Sec. 47, N.M. Stats. 1978 Annot.) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the Energy & Minerals Department of the State of New Mexico is authorized by law (Chap. 72, Laws 1935, as amended, being Sec. 70-2-1 et seq. New Mexico Statutes, 1978 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Marlisue Queen Unit Area, comprised of land hereinafter described,

to give reasonably effective control of operation therein; and

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

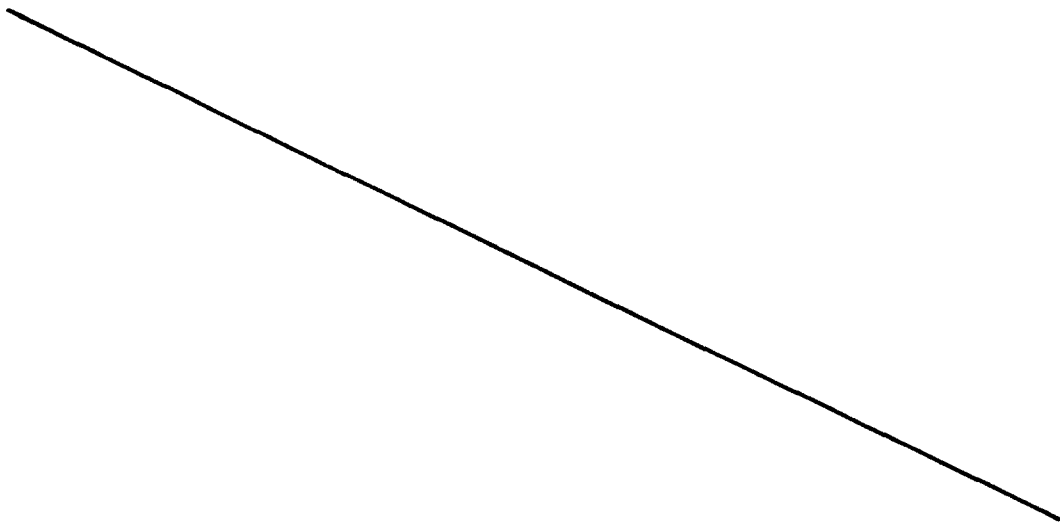
NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their respective interests in the Unitized Formation underlying the Unit Area (as those terms are defined hereinafter), and agree severally among themselves as follows:

SECTION 1. REGULATIONS: The oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this Agreement.

SECTION 2. UNIT AREA AND DEFINITIONS: The area described by tracts in Exhibit B and depicted on Exhibit A attached hereto is hereby designated and recognized as constituting the Unit Area, containing 440.00 acres, more or less, in Chaves County, New Mexico. Said land is described as follows:

Township 14 South, Range 29 East, New Mexico Principal Meridian

Section 24: N $\frac{1}{2}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$
containing 440 acres, more or less.



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

(a) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(b) "Division" is defined as the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico.

(c) "Unitized Formation" is defined as that stratigraphic interval underlying the Unit Area extending from the top to seventy-five feet below the top of the Queen formation, said interval top occurring at the depth of 1,894 feet as shown on the Gamma-Ray Neutron log ran on October 2, 1978, in the McClellan Oil Corporation's Marathon State No. 1 well located 1,650 feet from the south and west lines of Sec. 24, T-14 S., R. 29 E., Chaves County, New Mexico. Said log was measured from a ground elevation of 3,793 feet above sea level.

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

(e) "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 oil and gas lease, operating agreement or otherwise held.

(f) "Working Interest Owner" is defined as an owner of a working interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, the owner of which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. A royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of such working interest shall continue to be subject to such working interest burdens and obligations

that are stated in this Agreement and the Unit Operating Agreement.

(g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest. "Basic Royalty Interest" is defined as the royalty interest reserved by the lessor of an oil and gas lease.

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

(i) "Lessee of Record" is defined as the holder of record title under an oil and gas lease from the State of New Mexico.

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

(k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I and Phase II, as hereinafter defined.

(l) "Unit Participation" of each Working Interest Owner is defined as the sum of the percentages obtained by multiplying each Working Interest Owner's fractional Working Interest in each Tract by the applicable Tract Participation of each Tract. However, for the purpose of Working Interest Owner voting rights under this Unit Agreement, Unit Participation shall mean Unit Participation during Phase II.

(m) "Phase I" is defined as that period of time beginning at 7:00 A.M. on the effective date hereof and continuing until 7:00 A.M. on the first day of the calendar month next following the recovery of a total of 15,675 barrels of oil as determined from official production reports filed with The Oil Conservation Division of the State of New Mexico produced on and after January 1, 1983, from the Unitized Formation underlying the Unit Area (as such is depicted in the original Exhibit A).

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

(o) "Tract Primary Reserves" is defined as the remaining primary oil reserves allocated to each tract as set out in the Stephens

Engineering letter on the Marlisue Queen Area dated February 14, 1983.

(p) "Unit Primary Reserves" is defined as the total of the Tract Primary Reserves for each tract in the Marlisue Queen Area as set out in the Stephens Engineering letter dated February 14, 1983.

(q) "Tract Ultimate Primary Reserves" is defined as the ultimate primary reserves allocated to a tract as shown in the Stephens Engineering letter on the Marlisue Queen Area dated February 14, 1983.

(r) "Unit Ultimate Primary Reserves" is defined as the total of the Tract Ultimate Primary Reserves.

(r-1) "Tract Oil Productive Reservoir Volume" is defined as the oil productive reservoir volume allocated to a tract as shown in the Stephens Engineering report on the Marlisue Queen Area dated February 14, 1983.

(r-2) "Unit Oil Productive Reservoir Volume" is defined as the total of the Tract Oil Productive Reservoir Volume.

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

(t) "Unit Manager" is defined as the person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8 hereof.

(u) "Unit Operations" is defined as all operations conducted pursuant to this Agreement and the Unit Operating Agreement.

(v) "Unit Equipment" is defined as all personal property, lease and well equipment, plants, and other facilities and

equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

(w) "Unit Expense" is defined as all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

SECTION 3. EXHIBITS. Exhibit A, attached hereto, is a map showing the Unit Area and, to the extent known to Unit Operator, the boundaries and identity of Tracts and leases in said Unit Area. Exhibit B, attached hereto, is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, Land description, and the percentage and kind of ownership of oil and gas interests in each Tract in the Unit Area. Exhibit C, attached hereto, is a schedule showing the Tract Participation assigned to each Tract during both Phase I and Phase II. However, nothing herein or in said schedules or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedules as owned by such party. Exhibits A, B and C shall be revised by the Unit Operator whenever changes render such revision necessary or when requested by the Commissioner, and not less than two copies thereof shall be filed with the Commissioner and the Division.

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

Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in Unitized Land and in the Tract or Tracts proposed for inclusion in the Unit Area, setting out the basis for admission, the Tract Participation (both Phase I and Phase II) proposed to be assigned to each such Tract, and other

pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise), if Working Interest Owners having a combined Unit Participation of ninety-four percent (94%) or more have agreed to the inclusion such Tract or Tracts under this Agreement, then Unit Operator shall:

(a) After preliminary concurrence by the Commissioner and the Division prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefore, the basis for admission of the additional Tract or Tracts, the Phase I and Phase II Tract Participations to be assigned each such additional Tract, the revised Tract Participation for all other Tracts, and the proposed effective date thereof; preferably 7:00 A.M. on the first day of a month subsequent to the date of notice; and

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

(c) File, upon the expiration of said thirty (30) day period as set out in (b) immediately above with the Commissioner and the Division of the following: (1) Evidence of mailing or delivering copies of said notice of expansion; (2) An application in sufficient number for approval of such expansion; (3) An instrument containing the appropriate joinders in compliance with the requirements of Section 14 infra; and (4) A copy of any objections received.

The expansion shall, after due consideration of all pertinent information and approval by the Commissioner, become effective as of the date prescribed in the notice thereof, or on such other date as may be set by the Commissioner in the order or instrument approving such expansion. The revised Tract Participations (both Phase I and II) of those Tracts which were qualified for participation under

this Agreement prior to any such expansion shall remain in the same ratio one to the other.

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". All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons produced from the Unitized Formation underlying Unitized Land are unitized under the terms of this Agreement and herein are called "Unitized Substances". Nothing herein shall be construed to unitize, pool or in any way affect the oil, gas and other minerals that may be produced from any formation other than the Unitized Formation as above defined.

SECTION 6. UNIT OPERATOR. McClellan Oil Corporation is hereby designated the Unit Operator, and by signing this instrument as Unit Operator 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 to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances and the term "Working Interest Owner" when used herein shall include the 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, the Commissioner and the Division, and until all Unit wells are placed in a condition satisfactory to the Commissioner and the Division for suspension, abandonment, or

operations, whichever is required by the Commissioner or the Division, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties or obligations hereunder be subject to removal by vote of Working Interest Owners having a combined Phase II Unit Participation of eighty-five percent (85%) or more, exclusive of the Unit Participation of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

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

The resignation or removal of Unit Operator under this Agreement shall not terminate its rights, 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 to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing the removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 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 as herein provided. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and Division. If no successor Unit Operator is selected and approved as herein provided, the Commissioner, at his election, may declare this Agreement terminated.

In selecting a successor Unit Operator the affirmative vote of the Working Interest Owners having a combined Phase II Unit Participation of eighty percent (80%) or more shall prevail; provided, that if any one Working Interest Owner has a Unit Participation of more than twenty percent (20%), its negative vote or failure to vote shall not serve to disapprove the selection of a new Unit Operator approved by eighty-five percent (85%) or more of the voting interest of the remaining Working Interest Owners, and provided further that the Unit Operator shall not vote to succeed itself.

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. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed

either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner and the Division prior to approval of this Unit 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. 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 additional recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Commissioner and the Division inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil and any one or more other substances or combination of substances, whether produced from the

Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Commissioner and the Division with monthly injection and production reports for each Unit well. The Working Interest Owners, the Commissioner, and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this Agreement, which revisions and changes shall be subject to approval by the Commissioner and the Division. Subject to like approval the Plan of Operations may be revised as conditions may warrant.

The initial plan of operation shall be submitted for the Commissioner's and the Division's consideration 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 Commissioner and the Division 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 shall terminate automatically upon the expiration of said six (6) month period.

SECTION 12. 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 surfact of the land within the Unit

Area as may reasonably be necessary for Unit Operations and for the removal of Unitized Substances from the Unit Area, provided, that nothing shall be construed as leasing or otherwise conveying to the Working Interest Owners a site for water, gas injection, processing or other plants, or a camp site. The parties hereto, to the extent they have the right to do so, hereby grant Unit Operator the right to use free of cost brine or water (or both) produced from any formation underlying the Unitized Land for injection into the Unitized Formation. The grant of this right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into such other formations. Unit Operator shall not be entitled to take water from any well, lake, pond, or irrigation ditch belonging to a Royalty Owner without negotiating with such party for the use of such water.

SECTION 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 are figures which represent the Tract Participation percentages allocated to that Tract, under both Phase I and Phase II, calculated on the basis of all Tracts within the Unit Area being qualified under this Agreement as of the effective date hereof. The Tract Participation of each Tract within the Unit Area as set forth in Exhibit C has been calculated and determined in accordance with the factors and formula set out below, and such Tract Participations shall govern the allocation of Unitized Substances produced from the Unitized Land from and after the effective date hereof, subject to any revision or revisions of the Unit Area or the Exhibits to this Agreement in accordance with the provisions hereof.

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

Phase I = 100% Future Primary Recovery

Phase II= 33.3% Total Reservoir Volume

 33.3% Floodable Reservoir Volume

+ 33.3% Ultimate Primary Oil Recovery

In the event less than all of the Tracts within the Unit Area are qualified for participation under this Agreement as of the effective date hereof, Unit Operator shall promptly prepare a revised Exhibit C setting forth opposite each of the qualified Tracts (as determined from Section 14 hereof, Tracts Qualified for Participation), the revised Tract Participations (both Phase I and Phase II), which shall be calculated and determined by using the factors and formula set forth in this section, but applying the same only to the qualified Tracts. Unit Operator shall promptly file copies of such revised Exhibit C with the Commissioner and the Division, and upon approval of 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 subject, however, to any further revision or revisions of Exhibit C in accordance with the provisions (Sections 3, 4, 30, and 31) hereof.

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the effective date hereof the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be those Tracts more particularly described in Exhibit B that corner or have a common boundary (Tracts separated only by a public highway or a railroad right-of-way shall be considered to have a common boundary), and that otherwise qualify as follows:

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

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than seventy-five percent (75%) of the Basic Royalty Interest therein have become parties hereto and, further, as to which: (1) All Working Interest Owners in any such Tract as qualified for participation under this Agreement, and (2)

Seventy-five percent (75%) of the combined "voting interests" of Working Interest Owners in all Tracts that meet the requirements of Section 14 (a) above have voted in favor of the acceptance of such Tract. For the purpose of this Section 14 (b) the "voting interest" of a Working Interest Owner shall be equal to the ratio expressed as a percentage that its Unit Participation in all Tracts which qualify under Section 14 (a) bears to the total Unit Participation of all Working Interest Owners in all Tracts which qualify under Section 14 (a).

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless of the percentage of Basic Royalty Interest therein that is committed hereto and, further, as to which: (1) The Working Interest Owner who operates the Tract and all other Working Interest Owners in such Tract who have become parties hereto have joined in a request for acceptance of such Tract and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners that are parties hereto, 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 hereto and which arise out of the acceptance of the Tract as qualified for participation under this Agreement, and (2) Seventy-five percent (75%) or more of the combined "voting interest" of the Working Interest Owners in all Tracts that meet the requirements of Section 14 (a) and 14 (b) have voted in favor of the acceptance of such Tract, and acceptance of the indemnity agreement. For the purpose of this Section 14 (c), the "voting interest" of each Working Interest Owner shall be equal to the ratio expressed as a percentage that its Unit Participation in all Tracts which qualify under Sections 14 (a) and 14 (b) bears to the total Unit Participation of all

Working Interest Owners in all Tracts which qualify under Sections 14 (a) and 14 (b). Upon the acceptance of such a Tract as qualified for participation under this Agreement, the Unit Participations (both Phase I and Phase II) which would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such Agreements in proportion to their respective Working Interests in the Tract.

(d) Within Sixty (60) days after the requirements for commencement of Phase II or III have been met, the Operator will notify the Oil and Gas Division of the New Mexico State Land Office of such conversion to Phase II or III.

If, on the effective date of this Agreement, there is any Tract or Tracts which have not been qualified as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Commissioner and the Division, file a schedule of those Tracts which are entitled to participate in the production of Unitized Substances. Said schedule shall set forth opposite each such qualified Tract the assigned Tract number, the lease number, the owner of record of the lease and the Tract Participation percentage which shall be computed according to the participation formula set out in Section 13 (Tract Participation) above.

SECTION 15. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on Unitized Land for drilling, operating, camp, other production or development purposes and for pressure maintenance or

unavoidably lost) shall be apportioned among and allocated to the qualified Tracts within the Unit Area in accordance with the respective Tract Participation effective hereunder during the respective periods, either Phase I or Phase II, in which such Unitized Substances are produced, as set forth in the schedule of participation in Exhibit C or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties executing, consenting to or ratifying this Agreement entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal force and effect.

No Tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances, and nothing herein contained except as provided in Section 39 hereof, shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the qualification of any Tract.

If the Working Interest or Royalty Interest in any Tract, on or after the effective date hereof, is divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the percentage Tract Participation (both Phase I and II) assigned to such Tract shall, in the absence of a recordable instrument

executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein. 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 Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the Working Interest Owner receiving the same in kind, excepting the State of

If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right but not the obligation, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year and at not less than the prevailing market price in the area for like production. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party 60 days' notice of such intended sale.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for making payment therefore to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

If, after the effective date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not qualified hereunder as of the effective date hereof but which are subsequently qualified for participation under the provisions of Section 14 (Tracts Qualified for Participation) and Section 31 (Nonjoinder and Subsequent Joinder), or if any Tract is excluded from this Agreement as provided for in Section 30 (Loss of Title), the schedule of participation (both Phase I and II) as shown in Exhibit C, subject to Section 13 (Tract Participation) of Section 31 (Nonjoinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and the revised Exhibit C, upon approval by the Commissioner, shall govern all the allocation of Unitized Substances produced on and after the effective date thereof until the effective date of a new schedule so approved by the Commissioner. In any such revised Exhibit C pursuant to this paragraph, the Phase I and Phase II Tract Participations of the previously qualified Tracts shall remain in the same ratio one to the other.

SECTION 16. ROYALTY SETTLEMENT. The State of New Mexico and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to

such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefore 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 the amount of production or the proceeds thereof accruing to any Royalty Owner (except the State of New Mexico) in a Tract depends upon the average production per well or the average pipeline run per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing as of the effective date hereof.

Each Royalty Owner (other than the State of New Mexico) that ratifies this Agreement represents and warrants that he is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as his interest appears in Exhibit B attached hereto. If any such 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 such Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties in the affected Tract or Tracts shall be adjusted accordingly.

If gas obtained from lands or formation not subject to this Agreement is introduced into the Unitized Formation for use in

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

SECTION 17. RENTAL SETTLEMENT. Rentals and shut-in royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefore 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 shut-in royalty due under their leases. Rental or shut-in royalty for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, unless such rental or shut-in royalty is waived, suspended or reduced by law or by approval of the Commissioner.

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, or, with the consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

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 Commissioner, as to State leases, shall by his approval hereof or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement. Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the foregoing:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract subject to this agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in the lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing secondary recovery or enhanced oil operations performed hereunder upon any Tract of unitized lands shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Supervisor and Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the terms of this agreement.

(e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been, discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

SECTION 21. MATHEMATICAL ERRORS. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical or clerical errors which might exist in the pertinent exhibits to this Agreement upon approval by the Supervisor.

SECTION 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 assignments 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. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 A.M. of the first day of the calendar month next following the approval of this Agreement by the Commissioner and the Division.

Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for record in the office of the County Clerk of Chaves County, New Mexico one counterpart of this Agreement accompanied by a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date.

The term of this Agreement shall be for and during the time that Unitized Substances are produced from the Unitized Land and so long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and, should production be restored, so long thereafter as such Unitized Substances can be produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This Agreement may be terminated at any other time and for any other reasons with the approval of the Commissioner by Working Interest Owners owning eighty-five percent (85%) or more of the Unit Participation. Notice of any such approved termination shall be filed with the County Clerk of Chaves County, New Mexico, and given to all parties hereto by the Unit Operator within thirty (30) days after the effective date of termination.

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

If not otherwise provided by the leases unitized under this Agreement, Royalty Owners hereby 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 24. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION.

The Commissioner is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this Agreement when such quantity and rate of production under this Agreement is not fixed pursuant to State law or does not conform to any statewide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Commissioner is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this Agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this Agreement and is not in violation of any applicable State law. No such alteration or modification shall be effective as to any privately-owned lands subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

Powers in this Section vested in the Commissioner and the Division 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 25. (intentionally omitted)

SECTION 26. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Division, and to appeal from any order issued under the rules and regulations of the Commissioner and the Division or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner and the Division 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 27. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 28. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any Federal or State law, or rules and regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, that each party hereto covenants that during the term of this Agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 29. 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.

No Unit obligation which is suspended pursuant to this Section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. Determination of creditable "unavoidable delay" time shall be made by Unit Operator subject to the approval of the Commissioner.

SECTION 30. 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 and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In such event, Unit Operator shall recompute the Phase I and II Tract Participations of each of the Tracts remaining subject to this Agreement and shall revise Exhibit C accordingly. The revised Exhibit C shall be effective as of the first day of the calendar month in which such failure of title is finally determined. The Phase I and II participation percentages so recomputed for qualified Tracts shall remain the same ratio one to the other as before the loss of title was determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of the failure of title shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains qualified, the parties whose title failed shall not be entitled to share hereunder

with respect to such interest. In the event of a dispute as to title as to any Royalty, Working Interest or other interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner 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 31. NONJOINER AND SUBSEQUENT JOINER. If the owner of any substantial interest in a Tract within the Unit Area fails or refuses to subscribe or consent to this Agreement, the owner of the Working Interest in that Tract may withdraw said Tract from this Agreement by written notice to the Commissioner and the Unit Operator prior to the approval of this Agreement by the Commissioner.

Any Oil and Gas Interest in the Unitized Formation not committed hereto prior to the effective date of this Agreement may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time during a period of one (1) month after the effective date of the Unit Agreement on the same basis of participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying or consenting in writing to this Agreement, and if the interest is a Working Interest, by the owner of such interest also subscribing to the Unit Operating Agreement.

It is understood and agreed, however, that after such one month period the right of subsequent joinder by a Working Interest Owner as provided in this Section shall be subject to such requirements

or approval, as provided by the Unit Operating Agreement, if any, and on such equitable basis as may be agreed upon by Working Interest Owners having a combined Unit Participation of eighty per cent (80%) or more with the approval of the Commissioner. To be effective such joinder must be accompanied by a joinder to the Unit Operating Agreement. After the aforementioned one-month period joinder by the owner of a Royalty Interest such joinder must be evidenced by his execution or ratification of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner and the Division of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

SECTION 32. 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 land within the above described Unit Area.

SECTION 33. JOINDER IN DUAL CAPACITY. Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party; provided, that if the party is the owner of a Working Interest he must also execute the Unit Operating Agreement.

SECTION 34. 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 therefore by the parties hereto, including Royalty Owners, excluding the State of New Mexico, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the State of New Mexico nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 35. BORDER AGREEMENTS. Unit Operator, with concurrence of two (2) or more Working Interest Owners having a combined voting interest of seventy-five percent (75%) or more, may, subject to approval of the Division, enter into a border-protection agreement or agreements with the Working Interest Owners of adjacent lands along the exterior boundary of the Unit Area with respect to the operations in the border area for the maximum, ultimate recovery, conservation purposes, and proper protection of the parties and interest.

SECTION 36. PERSONAL PROPERTY EXCEPTED. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands subject to this Agreement shall be deemed to be and shall remain personal property belonging to such parties and may be removed by the Working Interest Owners. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 37. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create,

and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 38. OIL IN LEASE TANKAGE ON EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all lease and other tanks on the Unitized Land in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally as a part of prior allowables of the well or wells from which produced shall be and remain the property of the Interest Owners entitled thereto the same as if this Unit had not been formed; and the Working Interest Owner responsible therefore shall promptly remove said oil from the Unitized Land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner under the terms and provisions of this Agreement and shall be, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the applicable lease or leases and other contracts affected. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any Tract is overproduced with respect to the allowable of the well or wells on that Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

SECTION 39. LIEN OF UNIT OPERATOR. Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

ATTEST:

~~Deloris Taylor, Secretary~~

By

Jack L. McClellan, President

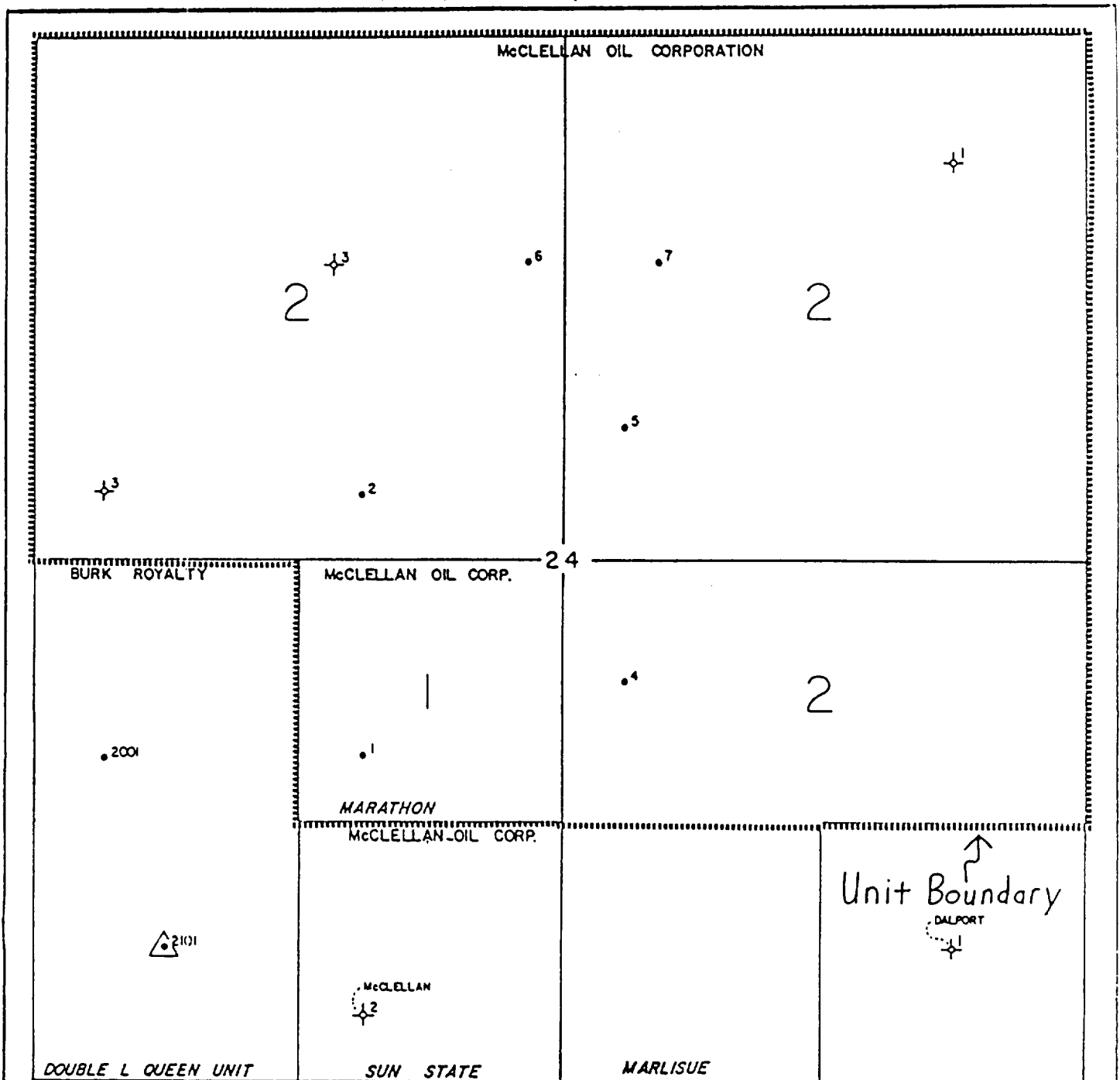
(Date)

) SS.

10-30-85

Notary Public

EXHIBIT A
TO
UNIT AGREEMENT
MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO



—LEGEND—

- Producing Well
- ✦ Dry Hole
- △ Converted PW to WIW
- New Drilled WIW
- ◻ Proposed New PW (Delayed)

PRELIMINARY WATER FLOOD ANALYSIS
McCLELLAN OIL CORPORATION
NORTH DOUBLE L AREA
CHAVES COUNTY, NEW MEXICO
AREA MAP

—SCALE—



EXHIBIT B
TO
UNIT AGREEMENT
MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

Tract No.	Description	No. of Acres	Lease No. & Expiration		Basic Royalty	Lessee of Record	Overriding Royalty		Working Interest Owner and Amount
			Date				Owner and Amount		
STATE LANDS									
1	Township 14 South, Range 29 East Section 24: NE $\frac{1}{4}$ SW $\frac{1}{4}$	40	L-4749 HBP		State of N.M.	Marathon Oil Co.	Marathon Oil Company	12.50%	McClellan Oil Corp. 3/16 The Toles Company 1/4 Robert M. Patterson 1/4 Jack L. McClellan 1/16 Abby Corporation 1/4
2	Township 14 South, Range 29 East Section 24: N $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$	400	K-6772 HBP		State of N.M.	Sun Oil Company	Sun Oil Company	12.50%	McClellan Oil Corp. 3/16 The Toles Company 1/4 Robert M. Patterson 1/4 Jack L. McClellan 1/16 Abby Corporation 1/4

GRAND TOTAL 2 State Tracts - 440 acres - 100% of Unit Area

EXHIBIT C
TO
UNIT AGREEMENT
MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

Tract No.	Description of Tract	Tract Participation Percentage	
		Phase I	Phase II
1	NE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 24, T-14-S, R-29-E	35.311005	36.921582
2	N $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ Section 24, T-14-S, R-29-E	64.688995	63.078418
Total		100.000000	100.000000