

CASE 2951: Application of SUNRAY DX
OIL CO. for approval of the HOPE UNIT
AGREEMENT, EDDY COUNTY, NEW MEXICO.

CASE No.
2951

Application,
TRANSCRIPTS,
SMALL Exhibits
ETC.



STATE LAND OFFICE

MEMORANDUM

FROM: UNITS

FEBRUARY 25, 1965

TO: ALL DEPARTMENTS

SUBJECT: NOTICE OF ELIMINATION BY CONTRACTION OF ACREAGE IN THE
HOPE UNIT AREA - EDDY COUNTY, NEW MEXICO
EFFECTIVE DATE: NOVEMBER 10, 1964

STATE ACREAGE ELIMINATED: 3200.00 ACREAGE REMAINING IN UNIT:

STATE: 622.96

ACREAGE ELIMINATED

TOWNSHIP 18 SOUTH, RANGE 23 EAST

<u>TRACT NO.</u>	<u>LEASE NO.</u>	<u>SECTION DESCRIPTION</u>	<u>KIND OF LAND</u>	<u>ACREAGE</u>
1	E-7867	16 NE/4, S/2	STATE	480.00
2	K-1426	16 NW/4	STATE	160.00
5	E-7869	20 NE/4, SW/4, S/2NW/4	STATE	400.00
6	K-1426	20 SE/4, N/2NW/4	STATE	240.00
7	E-7870	21 E/2, E/2W/2, SW/4NW/4, SW/4SW/4	STATE	560.00
8	K-2436	(21) NW/4NW/4, NW/4SW/4	STATE	80.00
9	E-7871	28 S/2, S/2N/2, N/2NE/4	STATE	560.00
10	K-2436	28 N/2NW/4	STATE	80.00
11	E-7872	29 ALL	STATE	640.00

TERMINATED
6-26-73

1967

Unit Name HOPE UNIT
 Operator SUNRAY DX OIL COMPANY
 County EDDY

DATE	OCC CASE NO.	2951	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO.	R-2615	DATE	ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
Commissioner:	OCC: 12-20-63		1-10-64	3822.96	3822.96	-0-	-0-	-0-	Yes Two years

UNIT AREA

TOWNSHIP 18 SOUTH, RANGE 23 EAST, NEW MEXICO PRINCIPAL MERIDIAN

Section 16: ✓ ALL
 Section 19: ✓ ALL
 Section 20: ✓ ALL
 Section 21: ✓ ALL
 Section 28: ✓ ALL
 Section 29: ALL

TERMINATED
 6-26-73

Unit Name HOPE UNIT
 Operator SUNRAY DX OIL COMPANY
 County EDDY

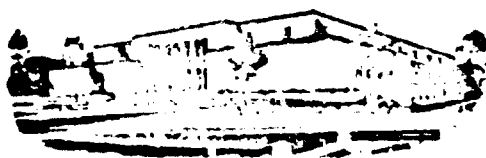
STATE TRACT NO.	LEASE NO.	INST-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSOR
1	E-7867	C.S.	16	18S	23E	NE/4, S/2	11-26-63	480.00		SUNRAY DX OIL COMPANY
2	K-1426	C.S.	16	18S	23E	NW/4	11-22-63	160.00		BELL PETROLEUM COMPANY
3	E-7868	UNIV.	19	18S	23E	LOTS 1, 2, 3, 4, E/2W/2, SE/4 1 (NW/4NW/4) 2 (SW/4NW/4) 3 (NW/4SW/4) 4 (SW/4SW/4)	11-26-63	462.96		SUNRAY DX OIL COMPANY
4	K-941	UNIV.	19	18S	23E	NE/4	12-11-63	160.00		SOUTHERN MINERALS CORP.
5	E-7869	UNIV.	20	18S	23E	NE/4, SW/4, S/2NW/4	11-26-63	400.00		THE ATLANTIC REFINING COMPANY
6	K-1426	UNIV.	20	18S	23E	SE/4, N/2NW/4	11-22-63	240.00		BELL PETROLEUM COMPANY
7	E-7870	UNIV.	21	18S	23E	E/2, E/2W/2, SW/4NW/4, SW/4SW/4	11-26-63	560.00		THE ATLANTIC REFINING COMPANY
8	K-2436	UNIV.	21	18S	23E	NW/4NW/4, NW/4SW/4	11-26-63	80.00		SUNRAY DX OIL COMPANY
9	E-7871	UNIV.	28	18S	23E	S/2, S/2N/2, N/2NE/4	11-26-63	560.00		SUNRAY DX OIL COMPANY
10	K-2436	UNIV.	28	18S	23E	N/2NW/4	11-26-63	80.00		SUNRAY DX OIL COMPANY
11	E-7872	UNIV.	29	18S	23E	ALL	11-26-63	640.00		THE ATLANTIC REFINING COMPANY

TERMINATED

6-26-73

State of New Mexico

TELEPHONE
505-827-2748



Commissioner of Public Lands

June 26, 1973

ALEX J. ARMIJO
COMMISSIONER

P. O. Box 1148
SANTA FE, NEW MEXICO

REGISTERED MAIL

Sun Oil Company
Box 2880
Dallas, Texas 75221

Re: South Hope Unit and Hope Unit
TERMINATION
Eddy County, New Mexico

ATTENTION: Mr. R. F. McKissick

Gentlemen:

We are in receipt of your letter dated June 20, 1973, whereby you advise us that you do not plan to restore production under these units and that you are allowing them to terminate.

This is to advise you that both the Hope Unit and South Hope Unit have been terminated as of this date.

Please advise all interested parties of this action.

Very truly yours,

RAY D. GRAHAM, Director
Oil and Gas Department

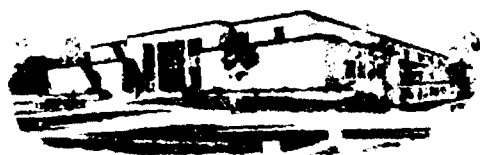
AJA/RDG/s

cc: New Mexico Oil Conservation Commission
Santa Fe, New Mexico

Leases: E-7866, K-2436, E-7873, K-941 and E-7868

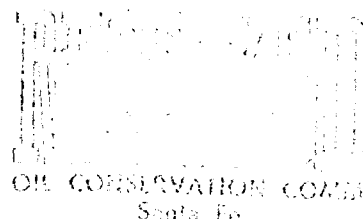
State of New Mexico

TELEPHONE
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Commissioner of Public Lands

June 26, 1973



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Oil and Gas Department

AJA/RIG/b

cc: New Mexico Oil Conservation Commission
Santa Fe, New Mexico

Leases: E-7866, K-2436, E-7873, K-941 and E-7868

January 10, 1964

Sunray DX Oil Company
P. O. Box 1416
Roswell, New Mexico

Re: Hope Unit Area
Eddy County, New Mexico

Attention: Mr. A. L. (Fred) Hallman, Jr.

Gentlemen:

The Commissioner of Public Lands has approved
as of this date the Hope Unit, Eddy County, New
Mexico.

We are handing to Mr. Hallman five originally
signed Certificates of Approval also Official Receipt
No. G-32678 in the amount of Thirty (\$30.00) Dollars.

Very truly yours,

E. S. JOHNNY WALKER
COMMISSIONER OF PUBLIC LANDS

BY:
(Mrs.) Marian M. Rhea, Supervisor
Unit Division

ESW/mm/v

encl:

cc: Oil Conservation Commission
Santa Fe, New Mexico

Summary D.X
Memo *copy* *to* From
D. S. NUTTER
CHIEF ENGINEER

To
Hope Unit 18-23E
16 19 20 21 28 29
3822.96 State

S. Hope 18-21E
25 26
18 23E
30 31
19 23E
7
~~36 34 69~~ all State
37 18.27

Note: There will be no EXAMINER HEARING in
the Second Half of December

DOCKET NO. 35-63

DOCKET: EXAMINER HEARING - WEDNESDAY - DECEMBER 4, 1963

9:00 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Elvis A. Utz, Examiner, or Daniel S. Nutter, Alternate Examiner:

- CASE 2945: Application of Shell Oil Company for the creation of a Devonian Gas Pool and for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the creation of a new Devonian gas pool for its Harris-Federal Well No. 1 located in Section 27, Township 23 South, Range 34 East, Lea County, New Mexico, said pool to comprise all of Sections 27, 28, 33 and 34, Township 23 South, Range 34 East, and all of Sections 3 and 4, Township 24 South, Range 34 East. Applicant further seeks the establishment of special pool rules, including a provision for 640-acre spacing units and for fixed well locations.
- CASE 2946: Application of Shell Oil Company for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the dual completion (conventional) of its State V Well No. 5 located in Unit I of Section 27, Township 17 South, Range 35 East, Lea County, New Mexico, to produce oil from the Vacuum-Yates and Vacuum-Paddock Pools through parallel strings of tubing.
- CASE 2947: Application of Charles B. Read for an unorthodox location, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval of the unorthodox location of his Bates Well No. 1 located 660 feet from the North line and 330 feet from the East line of Section 21, Township 8 South, Range 36 East, South Prairie-Pennsylvanian Pool, Roosevelt County, New Mexico.
- CASE 2948: Application of the Atlantic Refining Company for a pressure maintenance project, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the approval of a cooperative pressure maintenance project for the injection of water into the Gallup (Tocito) formation, Many Rocks-Gallup Oil Pool, San Juan County, New Mexico, by the injection of water through 13 wells located in Sections 6, 7, 8, 17 and 18, Township 31 North, Range 16 West. Applicant further seeks the designation of a project area comprising approximately 1,480 acres in the aforesaid five sections and the adoption of appropriate project rules therefor.
- CASE 2949: Application of Phillips Petroleum Company for an exception to Rule 309-A, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to produce up to a maximum of 24 proration units into its Santa Fe Battery No. 14, Santa Fe Lease, Vacuum Abo Reef Pool, Lea County, New Mexico.
- CASE 2950: Application of Amerada Petroleum Corporation for the creation of a new gas pool and for the contraction of the vertical limits of an existing pool. Applicant, in the above-styled cause, seeks the creation of a Morrow-Pennsylvanian Gas Pool, Lea County, New Mexico. Said pool was discovered by applicant's S. E. Anderson "A" Well No. 1 located in Unit P of Section 19, Township 9 South, Range 35 East, and would comprise the SE/4 of Section 19, SW/4 of Section 20, NW/4 of Section 29 and the NE/4

CASE 2950 continued from page 1

6f Section 30 in the aforesaid township. Applicant further seeks the contraction of the vertical limits of the South Bough-Pennsylvanian Pool to include the Bough "C" zone of the Pennsylvanian formation only.

CASE 2951:

Application of Sunray DX Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Hope Unit Area comprising 3822.96 acres, more or less, of State land in Township 18 South, Range 23 East, Eddy County, New Mexico.

CASE 2952:

Application of Sunray DX Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the South Hope Unit Area comprising 3778.27 acres, more or less, of State land in Township 18 South, Ranges 21 and 23 East, and Township 19 South, Range 23 East, Eddy County, New Mexico.

CASE 2953:

Application of Curtis R. Inman for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Walt Canyon Unit Area comprising 11,100.63 acres, more or less, of State, Federal and fee lands in Townships 21 and 22 South, Range 24 East, and Township 22 South, Range 25 East, Eddy County, New Mexico.

CASE 2954:

Application of Ambassador Oil Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Langlie Mattix-Penrose Sand Unit Area comprising 3,920 acres, more or less, of State, Federal and Fee lands in Township 22 South, Range 37 East, Lea County, New Mexico.

CASE 2955:

Application of Ambassador Oil Corporation for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the expansion of the existing Langlie Mattix Waterflood Project in Section 34, Township 22 South, Range 37 East, Lea County, New Mexico, by the conversion to water injection of 5 wells located in Sections 27, 33 and 34 of said township. Applicant further seeks the establishment of special rules governing further expansion and operation of the waterflood project in the Langlie Mattix-Penrose Sand Unit Area, including a provision for capacity allowables for wells in said project.



THE ATLANTIC REFINING COMPANY
INCORPORATED - 1970
PETROLEUM PRODUCTS

DOMESTIC PRODUCING DEPARTMENT
NEW MEXICO DISTRICT

ROONE MACAULAY, DISTRICT MANAGER
R. F. CHAMPION, DISTRICT LANDMAN
W. T. EASTES, DISTRICT GEOPHYSICIST
E. R. DOUGLAS, DISTRICT GEOLOGIST
A. D. KLOKIN, DISTRICT DRUG. & PROD. SUP. T.
W. P. TOMLINSON, DISTRICT ENGINEER
B. R. WARE, ADMINISTRATIVE SUPERVISOR

MAILING ADDRESS
P. O. BOX 1978
ROSWELL, NEW MEXICO

November 26, 1963

New Mexico Oil Conservation Commission
Post Office Box 871
Santa Fe, New Mexico

ATTENTION: Mr. Daniel S. Nutter

Re: Case No. 2951

Gentlemen:

The Atlantic Refining Company urges the Commission to approve the Sunray-DX Oil Company's application to form a unit to be designated as the Hope Unit comprising 3822.96 acres in Eddy County, New Mexico. The Atlantic Refining Company will own a working interest in this unit if it is formed.

Yours very truly,

W. P. Tomlinson
W. P. Tomlinson *VRC*

VRC:pam

cc: Mr. A. L. Hallman
Sunray-DX Oil Company
Post Office Box 1416
Roswell, New Mexico

~~Grant~~

Case 2851

Heard 12-4-63

Rec. 12-4-63

1. Grant Senray & X the Hope unit
agreement as requested,
Thold

State of New Mexico
Oil Conservation Commission



December 10, 1963

Re: Case No. 2951
Order No. R-2615
Applicant:
Sunray DX

A. L. PORTER, Jr.
Secretary-Director

OTHER _____

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CTSE No. 2951
Order No. R-2615

APPLICATION OF SUNRAY OIL COMPANY
FOR APPROVAL OF THE HOPE UNIT AGREE-
MENT, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on December 4, 1963, at Santa Fe, New Mexico, before Elvis A. Utz, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 10th day of December, 1963, the Commission, a quorum being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Elvis A. Utz, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Sunray Oil Company, seeks approval of the Hope Unit Agreement covering 3,822.96 acres, more or less, of State land in Township 18 South, Range 23 East, NMPM, Eddy County, New Mexico.

(3) That approval of the proposed Hope Unit Agreement will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

(1) That the Hope Unit Agreement is hereby approved.

(2) That the plan under which the unit area shall be operated shall be embraced in the form of a unit agreement for the development and operation of the Hope Unit Area, and such plan shall be known as the Hope Unit Agreement Plan.

-2-

CASE No. 2951
Order No. R-2615

(3) That the Hope Unit Agreement Plan is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Oil Conservation Commission of New Mexico by law relative to the supervision and control of operations for the exploration and development of any lands committed to the Hope Unit, or relative to the production of oil or gas therefrom.

(4) (a) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

EDDY COUNTY, NEW MEXICO
TOWNSHIP 18 SOUTH, RANGE 23 EAST

Section 16: All
Section 19: All
Section 20: All
Section 21: All
Section 28: All
Section 29: All

containing 3,822.96 acres, more or less.

(b) That the unit area may be enlarged or contracted as provided in said plan; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the Hope Unit Agreement within 30 days after the effective date thereof. In the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and shall terminate ipso facto upon the termination of said unit agreement. The last unit operator shall notify the Commission immediately in writing of such termination.

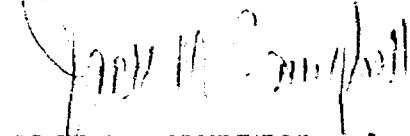
-3-

CASE No. 2951
Order No. R-2615

(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



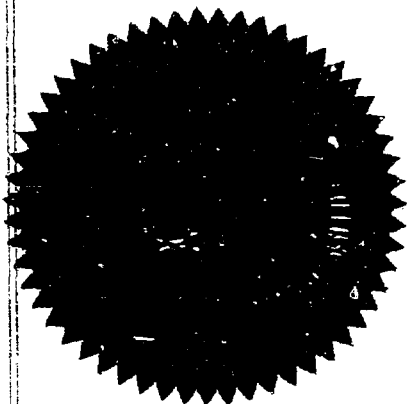
JACK M. CAMPBELL, Chairman



E. S. WALKER, Member



A. L. PORTER, Jr., Member & Secretary



esr/

P. O. Box 1416
Roswell, New Mexico - 88201



1964 JAN 13

January 13, 1964

2951

Oil Conservation Commission
State of New Mexico
P. O. Box 791
Santa Fe, New Mexico

Attention: Mr. A. L. Porter, Jr.,
Secretary

Re: Case No. 2951
Order No. R-2615
Hope Unit
Eddy County, New Mexico

Gentlemen:

In accordance with paragraph 5, page 2 of the captioned Order,
we enclose for your files a photocopy of fully executed Unit Agreement
covering Case No. 2951.

The Commissioner of Public Lands approved the Unit Agreement,
effective January 10, 1964.

Yours very truly,

Fred Hallman
A. L. (Fred) Hallman, Jr.
District Landman

ALH:bl

Enclosure

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
HOPE UNIT AREA
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 20th day of November, 1963, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 7, Art. 11, Sec. 39, N.M. Statutes 1953 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. 7, Art. 11, Sec. 41 N.M. Statutes 1953 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 Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by an Act of the Legislature (Chap. 72, Laws 1935; Chap. 65, Art. 3, Sec. 14 N.M. Statutes 1953 Annot.) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Hope Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure 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 below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

EDDY COUNTY, NEW MEXICO

TOWNSHIP 18 SOUTH, RANGE 23 EAST, N.M.P.M.

Section 16: All
Section 19: All
Section 20: All
Section 21: All
Section 28: All
Section 29: All

Containing 3822.96 acres, more or less.

Exhibit A attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said 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, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits A and B shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner."

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement."

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances."

3. UNIT OPERATOR: Sunray DX Oil Company, with offices at 10th Floor, Wilco Building, Midland, Texas, is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit B, and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the

same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner.

The resignation or removal of the unit operator under this agreement shall not terminate his 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 equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof 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 removal of any material, equipment and appurtenances needed for the preservation of any wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five per cent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five per cent (75%) of the total working interests, shall be required to select a new operator. 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. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned, among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement." No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. 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.

8. DRILLING TO DISCOVERY: The unit operator shall, before February 16, 1964, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to test the Pennsylvanian (Strawn-Atoka) formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 7800 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner, or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights, privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES: Should unitized substances in paying quantities be discovered upon the unit area the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter file a report with the Commissioner and Commission of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities as herein defined, unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well until operator has drilled a well on each numbered section within the unit area, except Section 29, Township 18 South, Range 23 East,

which section shall be drilled within one year from the date of completion of the last aforesaid wells.

Undeveloped regular well spacing or proration units shall remain on the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees of record in the manner prescribed by Sec. 7-11-14, N.M. Statutes 1953 Annot. of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by Sec. 7-11-17, N.M. Statutes 1953 Annot. and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized

land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tract of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES:

All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of the lands committed to this agreement shall, as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the term of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the

provisions and extend the term of each such lease as to lands within the unitized area to the provisions and term of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein so long as this agreement remains in effect; provided drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production of a well or wells for unitized substances on the unit area shall be construed and considered as the commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offsets to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the unit operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and 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 and gas, or either of them, are being produced in paying quantities from any portion of said lands.

14. 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 State laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until

this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and shall terminate in two years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five per cent (75%) on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner. Likewise, the failure to comply with the drilling requirements of Section 8 hereof may subject this agreement to termination as provided in said section.

18. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

19. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission, and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

20. NOTICES: All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given, if given in writing and sent by postpaid registered 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 may have furnished in writing to party sending the notice, demand or statement.

21. UNAVOIDABLE DELAY: All obligations under this agreement requiring the unit operator to commence or continue drilling 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, war, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, 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.

22. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

23. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties before participating in any benefits hereunder shall be required to assume and pay to unit operator their proportionate share of the unit expense incurred prior to such party's or parties' joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

24. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties or 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 such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

ATTEST:

SUNRAY DX OIL COMPANY


Secretary

By _____
Vice President

Date

Address: Tenth Floor,
Wilco Building, Midland, Texas

WORKING INTEREST OWNERS

ATTEST:

NOV 26 1963
Date

SUNRAY DX OIL COMPANY

By [Signature]
Vice President
Address: _____

ATTEST:

Secretary

Date

THE ATLANTIC REFINING COMPANY

By Boone Macaulay
Attorney-in-Fact
Address: P. O. Box 1978
Roswell, New Mexico

ATTEST:

Secretary

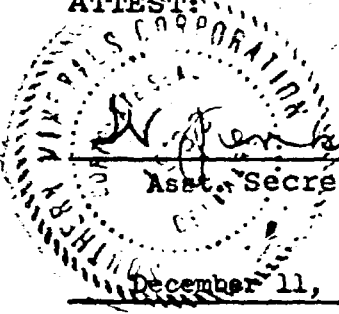
Date

BELL PETROLEUM COMPANY

By _____

Address: _____

ATTEST:


December 11, 1963
Date

SOUTHERN MINERALS CORPORATION

By [Signature]
President
Address: P. O. Box 716
Corpus Christi, Texas 78403
Federal Identification No. 74-1388429

WORKING INTEREST OWNERS

ATTEST:

SUNRAY DX OIL COMPANY

Secretary

Date

By _____

Address: _____

ATTEST:

THE ATLANTIC REFINING COMPANY

Secretary

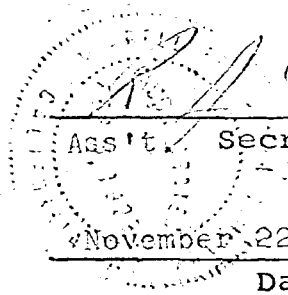
Date

By _____

Address: _____

ATTEST:

BELL PETROLEUM COMPANY



Ass't. Secretary
November 22, 1963

Date

By *[Signature]*
President

Address: 727 W. 7th Street

Los Angeles, California, 90017

ATTEST:

SOUTHERN MINERALS CORPORATION

Secretary

Date

By _____

Address: _____

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this 26
day of November, 1963, by Ernest V. Potter, Vice
President of Sunray DX Oil Company, a Delaware corporation, on
behalf of said corporation.

My Commission Expires:

PUBLIC

October 21, 1965

Notary Public
for the State of Oklahoma
My Commission Expires
October 21, 1965

Louise G. Grisham
Notary Public

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 4th
day of ~~November~~ ^{December}, 1963, by Boone Macaulay, Attorney-in-Fact
~~President~~ of The Atlantic Refining Company, a Pennsylvania
corporation, on behalf of said corporation.

My Commission Expires:

November 20, 1964

NOTARY PUBLIC
CHAVES COUNTY, N.M.

Lobbie Rae Dlagle
Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of Bell Petroleum Company, a _____ corporation,
on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF TEXAS)
) ss.
COUNTY OF NUECES)

The foregoing instrument was acknowledged before me this 11th
day of ~~November~~ ^{December}, 1963, by F. P. Peterson, Jr.
President of Southern Minerals Corporation, a Delaware
corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1965

NOTARY PUBLIC
COUNTY OF NUECES, TEXAS

Christine Ragland
Notary Public
(Christine Ragland)

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of November, 1963, by _____, President of Sunray DX Oil Company, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of November, 1963, by _____, President of The Atlantic Refining Company, a _____ corporation, on behalf of said corporation.

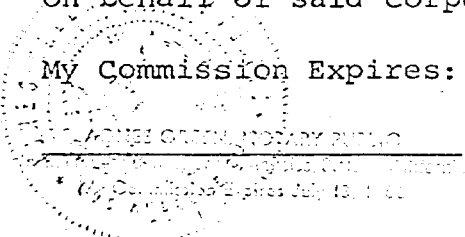
My Commission Expires:

Notary Public

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

The foregoing instrument was acknowledged before me this 22nd day of November, 1963, by R. L. PACKER, President of Bell Petroleum Company, a California corporation, on behalf of said corporation.

My Commission Expires:



[Signature]
Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of November, 1963, by _____, President of Southern Minerals Corporation, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

Township 18 South
Range 23 East

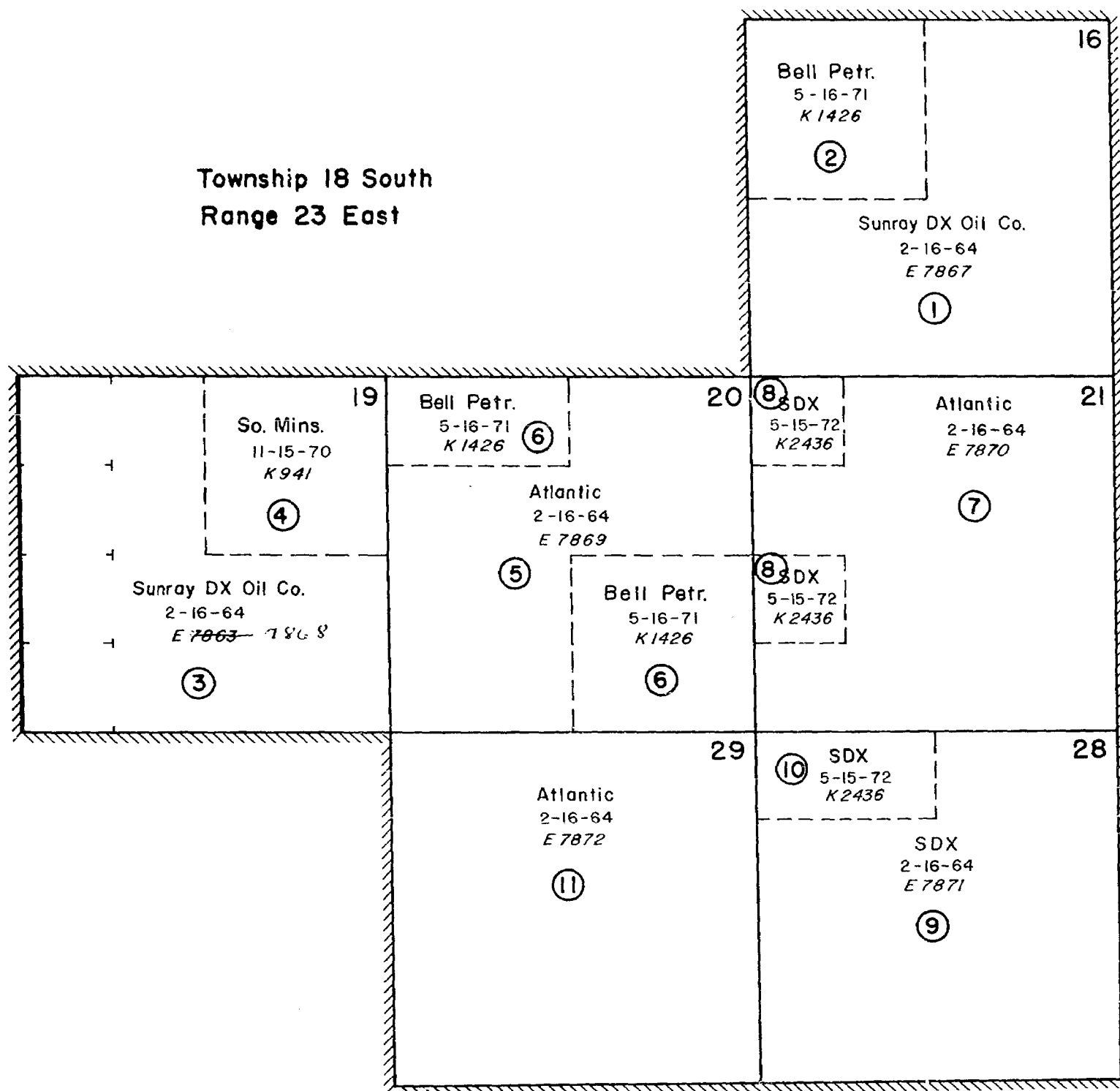


EXHIBIT "A"

HOPE UNIT AREA

Eddy Co., New Mexico

3822.96 ac. — State Lands

EXHIBIT "B"
HOPE UNIT AREA - EDOY COUNTY, NEW MEXICO

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Serial No. and Lease Expiration</u>	<u>Lessee of Record</u>	<u>Royalty Percentage</u>	<u>Overriding Royalty</u>	<u>Working Interest Owner</u>
1.	NE $\frac{1}{4}$, S $\frac{1}{2}$ Sec. 16, 18S-23E	480.00	E-7876 -7887 2/16/64	Sunray DX Oil Co.	State - 12 $\frac{1}{2}$	None	Sunray DX Oil Company
2.	NW $\frac{1}{4}$ Sec. 16, 18S-23E	160.00	K-1426 5/16/71	Bull Petroleum Co.	State - 12 $\frac{1}{2}$	None	Bell Petroleum Co.
3.	Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, SE $\frac{1}{4}$ Sec. 19, 18S-23E	462.96	E-7863 2/16/64	Sunray DX Oil Co.	State - 12 $\frac{1}{2}$	None	Sunray DX Oil Company
4.	NE $\frac{1}{4}$ Sec. 19, 18S-23E	160.00	K-941 11/15/70	Southern Minerals Corp.	State - 12 $\frac{1}{2}$	None	Southern Minerals Corp.
5.	NE $\frac{1}{4}$, SW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$ Sec. 20, 18S-23E	400.00	E-7869 2/16/64	The Atlantic Refining Company	State - 12 $\frac{1}{2}$	None	The Atlantic Ref. Co.
6.	SE $\frac{1}{4}$, N $\frac{1}{2}$ NW $\frac{1}{4}$ Sec. 20, 18S-23E	240.00	K-1426 5/16/71	Bell Petroleum Co.	State - 12 $\frac{1}{2}$	None	Bell Petroleum Co.
7.	E $\frac{1}{2}$, E $\frac{1}{2}$ W $\frac{1}{2}$, SW $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 21, 18S-23E	560.00	E-7870 2/16/64	The Atlantic Refining Company	State - 12 $\frac{1}{2}$	None	The Atlantic Ref. Co.
8.	NW $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 21, 18S-23E	80.00	K-2436 5/16/72	Sunray DX Oil Co.	State - 12 $\frac{1}{2}$	None	Sunray DX Oil Company
9.	S $\frac{1}{2}$, S $\frac{1}{2}$ N $\frac{1}{2}$, N $\frac{1}{2}$ NE $\frac{1}{4}$, Sec. 28, 18S-23E	560.00	E-7871 2/16/64	Sunray DX Oil Co.	State - 12 $\frac{1}{2}$	None	Sunray DX Oil Company
10.	N $\frac{1}{2}$ NW $\frac{1}{4}$ Sec. 28, 18S-23E	80.00	K-2436 5/16/72	Sunray DX Oil Co.	State - 12 $\frac{1}{2}$	None	Sunray DX Oil Company
11.	All of Sec. 29, 18S-23E	640.00 <u>3822.96</u>	E-7872 2/16/64	The Atlantic Refining Company	State - 12 $\frac{1}{2}$	None	The Atlantic Ref. Co.

PERCENTAGE OF OWNERSHIP

Sunray DX Oil Company	43.49928
The Atlantic Refining Company	41.85239
Bell Petroleum Company	10.46310
Southern Minerals Corporation	<u>4.18523</u>
TOTAL	100.00000

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
HOPE UNIT AREA
EDDY COUNTY, NEW MEXICO

BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION
EXHIBIT NO. <u>1</u>
CASE NO. <u>1951 and 1952</u>

THIS AGREEMENT, entered into as of the 20th day of November, 1963, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 7, Art. 11, Sec. 39, N.M. Statutes 1953 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. 7, Art. 11, Sec. 41 N.M. Statutes 1953 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 Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by an Act of the Legislature (Chap. 72, Laws 1935; Chap. 65, Art. 3, Sec. 14 N.M. Statutes 1953 Annot.) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Hope Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure 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 below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

EDDY COUNTY, NEW MEXICO

TOWNSHIP 18 SOUTH, RANGE 23 EAST, N.M.P.M.

Section 16: All
Section 19: All
Section 20: All
Section 21: All
Section 28: All
Section 29: All

Containing 3822.96 acres, more or less.

Exhibit A attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said 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, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits A and B shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner."

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement."

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances."

3. UNIT OPERATOR: Sunray DX Oil Company, with offices at 10th Floor, Wilco Building, Midland, Texas, is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit B, and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the

same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner.

The resignation or removal of the unit operator under this agreement shall not terminate his 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 equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof 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 removal of any material, equipment and appurtenances needed for the preservation of any wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five per cent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five per cent (75%) of the total working interests, shall be required to select a new operator. 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. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned, among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement." No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. 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.

8. DRILLING TO DISCOVERY: The unit operator shall, before February 16, 1964, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to test the Pennsylvanian (Strawn-Atoka) formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 7800 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner, or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights, privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES: Should unitized substances in paying quantities be discovered upon the unit area the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter file a report with the Commissioner and Commission of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities as herein defined, unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well until operator has drilled a well on each numbered section within the unit area, except Section 29, Township 18 South, Range 23 East,*

If the unit operator should fail to comply with the above program for development, this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units but in such event the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees of record in the manner prescribed by Sec. 7-11-14, N.M. Statutes 1953 Annot. of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by Sec. 7-11-17, N.M. Statutes 1953 Annot. and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized

* , which section shall be drilled within one year from the date of completion of the last of the aforesaid wells.

land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tract of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES:

All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of the lands committed to this agreement shall, as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the term of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the

provisions and extend the term of each such lease as to lands within the unitized area to the provisions and term of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein so long as this agreement remains in effect; provided drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production of a well or wells for unitized substances on the unit area shall be construed and considered as the commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offsets to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the unit operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and 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 and gas, or either of them, are being produced in paying quantities from any portion of said lands.

14. 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 State laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until

this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and shall terminate in two years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five per cent (75%) on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner. Likewise, the failure to comply with the drilling requirements of Section 8 hereof may subject this agreement to termination as provided in said section.

18. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

19. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission, and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

20. NOTICES: All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given, if given in writing and sent by postpaid registered 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 may have furnished in writing to party sending the notice, demand or statement.

21. UNAVOIDABLE DELAY: All obligations under this agreement requiring the unit operator to commence or continue drilling 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, war, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, 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.

22. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

23. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties before participating in any benefits hereunder shall be required to assume and pay to unit operator their proportionate share of the unit expense incurred prior to such party's or parties' joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

24. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties or 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 such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

ATTEST:

SUNRAY DX OIL COMPANY

Secretary

By _____
Vice President

Date

Address: Tenth Floor,
Wilco Building, Midland, Texas

WORKING INTEREST OWNERS

ATTEST:

SUNRAY DX OIL COMPANY

Secretary

By _____

Date

Address: _____

ATTEST:

THE ATLANTIC REFINING COMPANY

Secretary

By _____

Date

Address: _____

ATTEST:

BELL PETROLEUM COMPANY

Secretary

By _____

Date

Address: _____

ATTEST:

SOUTHERN MINERALS CORPORATION

Secretary

By _____

Date

Address: _____

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of Sunray DX Oil Company, a _____ corporation, on
behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of The Atlantic Refining Company, a _____
corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of Bell Petroleum Company, a _____ corporation,
on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of Southern Minerals Corporation, a _____
corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of Sunray DX Oil Company, a _____ corporation, on
behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of The Atlantic Refining Company, a _____
corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of Bell Petroleum Company, a _____ corporation,
on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of Southern Minerals Corporation, a _____
corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of Sunray DX Oil Company, a _____ corporation, on
behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of The Atlantic Refining Company, a _____
corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of Bell Petroleum Company, a _____ corporation,
on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____
day of November, 1963, by _____,
President of Southern Minerals Corporation, a _____
corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

Township 18 South
Range 23 East

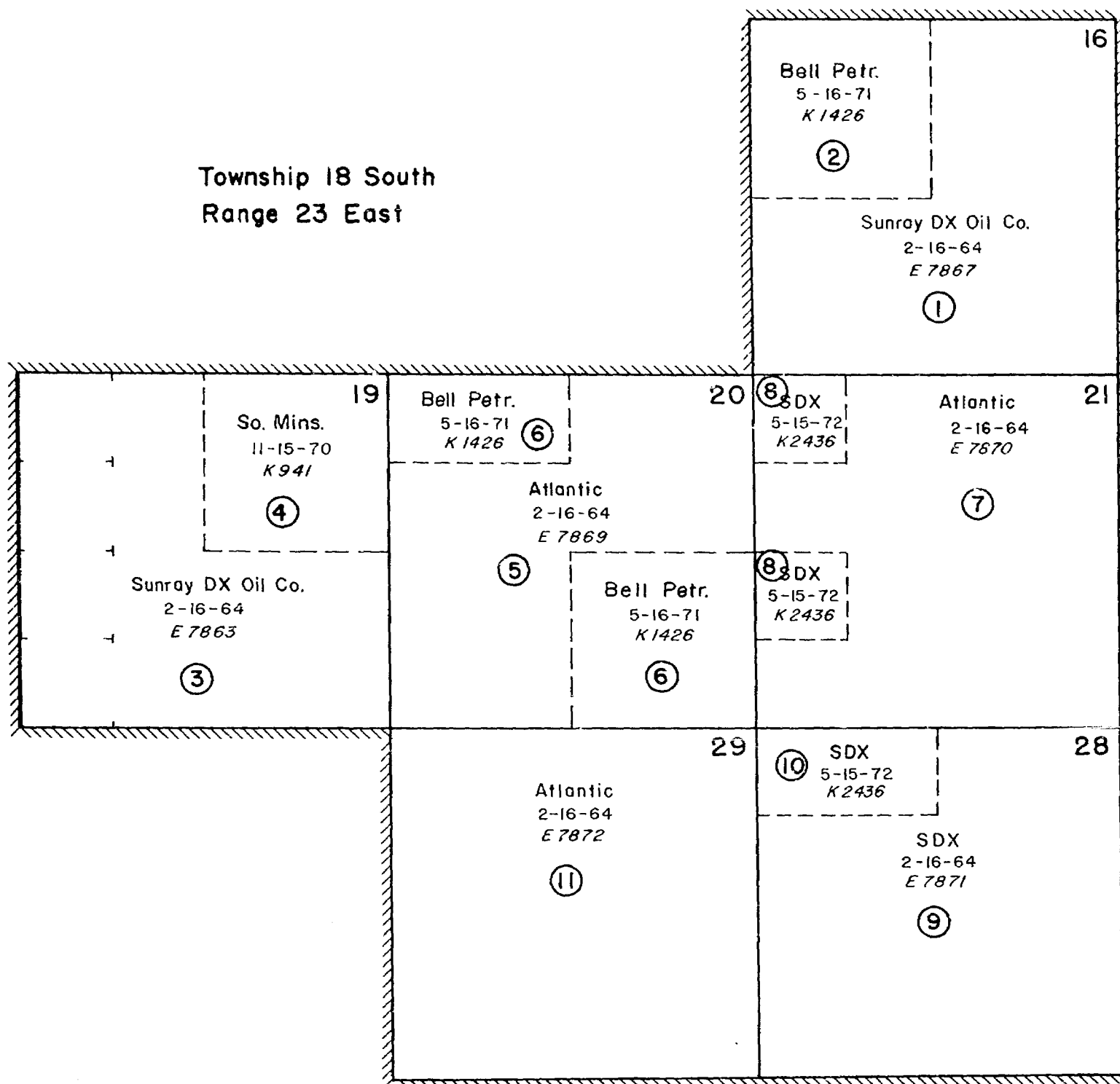


EXHIBIT "A"

HOPE UNIT AREA

Eddy Co., New Mexico

3822.96 ac. — State Lands

EXHIBIT "B"
HOPE UNIT AREA - EDDY COUNTY, NEW MEXICO

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Serial No. and Lease Expiration</u>	<u>Lessee of Record</u>	<u>Royalty Percentage</u>	<u>Overriding Royalty</u>	<u>Working Interest Owner</u>
1.	NE $\frac{1}{4}$, S $\frac{1}{2}$ Sec. 16, 18S-23E	480.00	E-7876 2/16/64	Sunray DX Oil Co.	State - 12 $\frac{1}{2}$	None	Sunray DX Oil Company
2.	NW $\frac{1}{4}$ Sec. 16, 18S-23E	160.00	K-1426 5/16/71	Bell Petroleum Co.	State - 12 $\frac{1}{2}$	None	Bell Petroleum Co.
3.	Lots 1,2,3,4, E $\frac{1}{2}$ NW $\frac{1}{2}$, SE $\frac{1}{4}$ Sec. 19, 18S-23E	462.96	E-7863 2/16/64	Sunray DX Oil Co.	State - 12 $\frac{1}{2}$	None	Sunray DX Oil Company
4.	NE $\frac{1}{4}$ Sec. 19, 18S-23E	160.00	K-941 11/15/70	Southern Minerals Corp.	State - 12 $\frac{1}{2}$	None	Southern Minerals Corp.
5.	NE $\frac{1}{4}$, SW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$ Sec. 20, 18S-23E	400.00	E-7869 2/16/64	The Atlantic Refining Company	State - 12 $\frac{1}{2}$	None	The Atlantic Ref. Co.
6.	SE $\frac{1}{4}$, N $\frac{1}{2}$ NW $\frac{1}{4}$ Sec. 20, 18S-23E	240.00	K-1426 5/16/71	Bell Petroleum Co.	State - 12 $\frac{1}{2}$	None	Bell Petroleum Co.
7.	E $\frac{1}{2}$, E $\frac{1}{2}$ NW $\frac{1}{2}$, SW $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 21, 18S-23E	560.00	E-7870 2/16/64	The Atlantic Refining Company	State - 12 $\frac{1}{2}$	None	The Atlantic Ref. Co.
8.	NW $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 21, 18S-23E	80.00	K-2436 5/16/72	Sunray DX Oil Co.	State - 12 $\frac{1}{2}$	None	Sunray DX Oil Company
9.	S $\frac{1}{2}$, S $\frac{1}{2}$ N $\frac{1}{2}$, N $\frac{1}{2}$ NE $\frac{1}{4}$, Sec. 28, 18S-23E	560.00	E-7871 2/16/64	Sunray DX Oil Co.	State - 12 $\frac{1}{2}$	None	Sunray DX Oil Company
10.	N $\frac{1}{2}$ NW $\frac{1}{4}$ Sec. 28, 18S-23E	80.00	K-2436 5/16/72	Sunray DX Oil Co.	State - 12 $\frac{1}{2}$	None	Sunray DX Oil Company
11.	All of Sec. 29, 18S-23E	640.00 <u>3822.96</u>	E-7872 2/16/64	The Atlantic Refining Company	State - 12 $\frac{1}{2}$	None	The Atlantic Ref. Co.

PERCENTAGE OF OWNERSHIP

Sunray DX Oil Company	43.49928
The Atlantic Refining Company	41.85239
Bell Petroleum Company	10.46310
Southern Minerals Corporation	<u>4.18523</u>
TOTAL	100.00000

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

EXAMINER HEARING

DEARNLEY-MEIER REPORTING SERVICE, Inc.

FARMINGTON, N. M.
PHONE 325-1182

SANTA FE, N. M.
PHONE 983-3971

ALBUQUERQUE, N. M.
PHONE 243-6691

IN THE MATTER OF:

Application of Sunray DX Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Hope Unit Area comprising 3822.96 acres, more or less, of State land in Township 18 South, Range 23 East, Eddy County, New Mexico. And, Application of Sunray DX Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the South Hope Unit Area comprising 3778.27 acres, more or less, of State land in Township 18 South, Ranges 21 and 23 East, and Township 19 South, Range 23 East, Eddy County, New Mexico.

Case No. 2951

Case No. 2952

BEFORE: Elvis A. Utz, Examiner.

TRANSCRIPT OF HEARING

December 4, 1963.



MR. UTZ: Case 2951.

MR. DURRETT: Application of Sunray DX Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Hope Unit Area comprising 3822.96 acres, more or less, of State land in Township 18 South, Range 23 East, Eddy County, New Mexico.

MR. WHITE: If the Examiner please, Charles White, Santa Fe, New Mexico, appearing on behalf of the Applicant. We have two witnesses. If the Examiner please, for the purpose of the hearing we would like to consolidate Cases 2951 and 2952.

MR. UTZ: Hope and South Hope, both unit agreements?

MR. WHITE: Yes, sir.

MR. UTZ: 2951 and 52 will be consolidated for testimony. Separate orders will be written.

(Witnesses sworn.)

(Whereupon, Applicant's Exhibits Nos. 1 - 5 were marked for identification.)

A. L. HALLMAN

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. WHITE:

Q Will you state your name and address?



A My name is A. L. Hallman, address, Roswell, New Mexico.

Q By whom are you employed and in what capacity?

A Employed by Sunray DX Oil Company as District Land Man.

Q How long have you been District Land Man in the Roswell area?

A Five years.

Q Are you familiar with the subject South Hope Unit Agreement and Hope Unit Agreement?

A Yes, sir.

Q What areas does each unit embrace, and in so describing them refer to what has been marked Exhibit No. 1?

A The Hope Unit area outlined in blue embraces all the land in Sections 16, 19, 20, 21, 28 and 29, 18 South, 23 East. The South Hope Unit area outlined in red on our plat embraces all the lands in Sections 25 and 36, 18 South, 21 East; Sections 30 and 31, 18 South, 23 East, and Sections 6 and 7, 19 South, 23 East.

Q Does this exhibit also show the offset lease owners?

A Yes, sir.

Q Who will be the unit operator of the proposed units?

A Sunray DX Oil Company.

Q Will you refer to and identify Exhibits 2 and 3?

A Exhibits 2 and 3 are the standard unit agreements approved by the State Land Commissioner.



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

Q Will you briefly state what the drilling programs are contemplated to be for each unit?

A For the Hope Unit, drilling operations are to commence on a test well in Section 19 on or before February 16, 1964 with continuous development on each numbered section in the unit area, with six months between wells. The South Hope Unit area has the same development program except the first well will be drilled in Section 31 of 18 South, 23 East.

Q Are the land descriptions in the unit agreements the same as depicted on the unit area on Exhibit 1?

A Yes, I would like to make a correction on Exhibit B of the Hope Unit area.

Q That is part of the exhibit --

A That is part of the unit agreement.

Q Is that the Hope or South Hope?

A The Hope Unit. Tract No. 1 the serial number should read E-7867. Tract No. 3 --

MR. UTZ: Just a minute, please. What page would that be on?

A The very last page.

MR. UTZ: 7867?

A Yes, sir. Tract No. 3 should read E-7868. For the South Hope Unit area, the last page, a correction for Tract No. 10,



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serial number should read E-7879.

Q Did you state that the State Land Office has approved both unit agreements?

A Yes, sir, as to form and content.

Q What portion of the area in each unit is state owned?

A All of the lands in each unit are state lands.

Q What percent of participation do you have committed?

A One hundred percent participation in each unit.

Q Is this a standard form unit agreement?

A Yes, sir.

Q Will you submit to the Commission a confirmed counterpart of the unit agreements if it is approved in all or signed up?

A Yes, sir.

Q Was Exhibit 1 prepared by you and under your direction?

A Yes, sir.

MR. WHITE: At this time we offer Exhibits 1, 2 and 3.

MR. UTZ: Without objections, 1, 2 and 3 will be admitted in evidence.

(Whereupon, Applicant's Exhibits Nos. 1, 2 and 3 were offered and admitted in evidence.)

MR. WHITE: That concludes our testimony as to this witness.



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CROSS EXAMINATION

BY MR. UTZ:

Q Exhibit 1 will be Exhibit 1 for both cases, is that right?

A Yes, sir.

Q Exhibit 2 will be just the Case 2951, is that correct?

MR. WHITE: Yes, sir.

Q And Exhibit 3, 2952?

A Correct.

MR. UTZ: Does that complete your testimony?

MR. WHITE: Yes, it does.

MR. UTZ: Any questions of the witness?

MR. DURRETT: I have one question.

MR. UTZ: Mr. Durrett.

BY MR. DURRETT:

Q Referring to your unit agreements, they do correctly describe the area involved in each case, is that correct?

A Yes, sir.

MR. UTZ: Any other questions? The witness may be excused.

(Witness excused.)

PAUL J. BEAUER

called as a witness, having been first duly sworn, testified as



follows:

DIRECT EXAMINATION

BY MR. WHITE:

Q Will you state your name and address, please?

A Paul J. Beauer, Midland, Texas.

Q By whom are you employed and what capacity?

A Sunray DX Oil Company as Division Geologist.

Q Are you familiar with Cases 2951 and 2952?

A Yes, I am.

Q Are you the same Mr. Beauer that testified in Case 2925 before the Examiner of the Oil Conservation Commission --

A Yes, sir.

Q -- on October 30, 1963?

A Yes, sir.

MR. WHITE: If the Examiner please, we would like to ask that administrative notice be taken of the testimony of Mr. Beauer in Case 2925 upon which Order R-2598 was issued November 13. This is in regard to Sunray's application for the creation of a Strawn Gas Pool and for special temporary pool rules. That would limit our testimony if the Examiner would see fit to do so.

MR. UTZ: Order 2598 was special pool rules for which pool, now?

MR. WHITE: For the Strawn Gas Pool.

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MR. UTZ: For a Strawn Gas Pool. There might be some other name, might there not? South Hope Strawn Gas Pool, would that be the proper name?

MR. WHITE: That's correct.

MR. UTZ: The Examiner will take administrative notice of Order 2598.

MR. WHITE: And will it also take notice of the testimony of Mr. Beauer in that case?

MR. UTZ: Yes, in that case.

Q (By Mr. White) Mr. Beauer, have you made any additional geological studies since the hearing of Case 2925?

A Yes, I have.

Q What did those studies consist of?

A Two interpretations based upon one structure map, the first one being on the top of the Mississippian Chester. Both maps are on top of the Mississippian Chester. This one shows an Atoka sand bar in the easterly part of the area with a Strawn sand bar --

Q Is that depicted on Exhibit 4?

A Yes.

Q Go ahead and explain Exhibit 4.

A The Strawn sand bar being shown in a light blue color in the westerly part of the area encompassing most of the area of the



South Hope Unit and the westerly portion of the Hope Unit. The western purple line there, we depict as the edge of the Atoka Sea with the Strawn Sea coming in later, transgressing to the west, but with the facies changing both east and west of the gas production.

Q In your opinion is the acreage underlying each unit reasonably calculated to be productive of gas?

A Yes, sir.

Q Does this exhibit support your prior testimony?

A Yes, sir.

Q Do you have any additional information tending to show any possible production at a more shallow depth?

A Yes, sir.

Q Is that reflected in Exhibit 5?

A Exhibit 5. Exhibit 5 is the same structural marker, being atop the Mississippian Chester, but imposed thereon in the easterly portion of the map is the Cisco limestone porosity trap which we interpret to be a stratigraphic trap. The Strawn sand bar is exactly the same as portrayed on a previous exhibit. The Cisco limestone porosity was encountered in our No. 1 State A. J. dry hole drilled in Section 29, 18 South, 23 East.

There was 10 feet of porosity with a slight show of gas and samples, and it was not tested. This particular porosity zone is

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60 feet thick in the Southern Union dry hole in Section 24, 18, 23, tested dry. The Magnolia No. 1 Tres Ranch in Section 10, 19 South, 23 East encountered 30 feet of porosity in the Cisco, and its best test swabbed 25 barrels of oil and 79 barrels of water in 24 hours. The zone eventually went to water, no commercial production was ever reported. We think there's an excellent chance that Cisco stratigraphic trap will be in the most easterly part of the Hope Unit.

Q In your opinion will the approval of these unit agreements be in the interest of conservation and tend to prevent waste?

A Yes, sir.

Q Were Exhibits 4 and 5 prepared by you or under your direction?

A Yes, sir.

Q Does this conclude your testimony?

A Yes, sir.

MR. WHITE: At this time we offer Exhibits 4 and 5.

MR. UTZ: Without objection, Exhibits 4 and 5 will be entered into the record of this case.

(Whereupon, Applicant's Exhibits Nos. 4 and 5 were offered and admitted in evidence.)

MR. WHITE: That concludes our presentation.



MR. UTZ: Are there questions of the witness? The witness may be excused.

(Witness excused.)

MR. UTZ: Any other statements in this case? The case will be taken under advisement.

STATE OF NEW MEXICO)
) SS
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 7th day of December, 1963.

Ada Dearnley
Notary Public-Court Reporter

My commission expires:

June 19, 1967.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2851 & 52 heard by me on *Dec 4*, 1963.
Miss G. J. P., Examiner
New Mexico Oil Conservation Commission

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DRAFT

JMD/esr

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE No. 2951

Order No. R- 5012

APPLICATION OF SUNRAY DX OIL COMPANY
FOR APPROVAL OF THE HOPE UNIT AGREE-
MENT, EDDY COUNTY NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on December 4, 1963, at Santa Fe, New Mexico, before Elvis A. Utz, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this _____ day of December, 1963, the Commission, a quorum being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Elvis A. Utz, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Sunray DX Oil Company, seeks approval of the Hope Unit Agreement covering 3,822.96 acres, more or less, of State, ~~Federal and Fee~~ lands in Township 18 South, Range 23 East, NMPM, Eddy County, New Mexico.

(3) That approval of the proposed Hope Unit Agreement will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

(1) That the Hope Unit Agreement is hereby approved.

(2) That the plan under which the unit area shall be operated shall be embraced in the form of a unit agreement for the development and operation of the Hope Unit Area, and such plan shall be known as the Hope Unit Agreement Plan.

(3) That the Hope Unit Agreement Plan is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Oil Conservation Commission of New Mexico by law relative to the supervision and control of operations for the exploration and development of any lands committed to the Hope Unit, or relative to the production of oil or gas therefrom.

(4) (a) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

EDDY COUNTY, NEW MEXICO
TOWNSHIP 18 SOUTH, RANGE 23 EAST

Section 16: All
Section 19: All
" 20: All
" 21: All
" 28: All
" 29: All



containing 3,822.96 acres, more or less.

(b) That the unit area may be enlarged or contracted as provided in said plan; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the Hope _____ Unit Agreement within 30 days after the effective date thereof. In the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico ~~and the Director of the United States Geological Survey~~ and shall terminate ipso facto upon the termination of said unit agreement. The last unit operator shall notify the Commission immediately in writing of such termination.

(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.