

BLACK MESA UNIT AGREEMENT

UNION COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 26th day of MARCH, 1946, by and between the parties subscribing or consenting hereto:

W I T N E S S E T H:

WHEREAS, the parties subscribing hereto are the owners of operating, royalty, or other oil or gas interests in the Unit Area subject to this agreement; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent avoidable waste and secure the other benefits obtainable through development and operation of the Unit Area subject to this agreement under the terms, conditions and limitations hereinafter set forth, under and pursuant to the provisions of Sections 17, 27, and 32 of the Act of Congress approved February 25, 1920, entitled "An Act to Promote the Mining of Coal, Phosphate, Oil, Oil Shale, Gas and Sodium on the Public Domain," 41 Stat. 443, 448, 450, as amended or supplemented by the Acts of March 4, 1931, 46 Stat. 1523, and August 21, 1935, 49 Stat. 676; 30 U.S.C. 226, 184, and 189; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Chap. 88, Laws 1943) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Chap. 72, Laws 1935) to approve this agreement and the conservation provisions hereof;

NOW, THEREFORE, for and in consideration of the premises and the promises hereinafter contained, the parties subscribing hereto and the parties consenting hereto agree as follows:

LAWS AND REGULATIONS:

1. The Act of Congress, approved February 25, 1920, supra, as amended, the Acts of the Legislature of the State of New Mexico, (Chap. 72, Laws of 1935, and Chap. 88, Laws of 1943), and all pertinent regulations heretofore and all pertinent and reasonable regulations hereafter issued thereunder, including operating and unit plan regulations, and not inconsistent with the provisions hereof, are accepted and made a part of this agreement.

DEFINITIONS:

2. For all purposes of this agreement, certain terms used herein are defined as follows:

(a) "Secretary" shall mean the Secretary of the Interior of the United States and those persons or agencies duly authorized to act for and in his behalf.

(b) "Supervisor" shall mean the Oil and Gas Supervisor of the United States Geological Survey and those persons or agencies duly authorized to act for and in his behalf.

(c) "Commissioner" shall mean the Commissioner of Public Lands of the State of New Mexico.

(d) "Commission" shall mean the Oil Conservation Commission of the State of New Mexico and those persons duly authorized to act for and in its behalf.

(e) "Working Interest Owner" shall mean a party hereto whose interest in the unitized substances under existing contracts and under this agreement is subject to a charge for, or an obligation to pay a portion of the costs and expenses of operations hereunder.

(f) "Royalty Owner" shall mean a party hereto or consenting hereto whose interest in the unitized substances is free from any obligation, liability, or charge for and on account of the costs and expenses of operations hereunder.

(g) "Paying Quantities" shall mean a quantity of the unitized substances sufficient to repay the cost of drilling, equipping and operating the well and a small profit in addition thereto.

UNIT AREA: 3. The following described lands situated in Union County, New Mexico, are hereby designated and recognized as constituting the Unit Area:

Principal Meridian, New Mexico

Township 30 North, Range 36 East

Sections 1, 2 and 3
Section 4, NE $\frac{1}{4}$ SE $\frac{1}{4}$, S $\frac{1}{2}$ SE $\frac{1}{4}$
Sections 9, 10, 11, 12, 13, 14, 15 and 16.
Sections 21, 22, 23 and 24.

Township 31 North, Range 36 East

Sections 1, 11, 12, 13 and 14.
Section 22, E $\frac{1}{2}$ SE $\frac{1}{4}$
Sections 23, 24, 25, 26 and 27.
Sections 34, 35 and 36.

Township 32 North, Range 36 East

Section 36.

Township 30 North, Range 37 East

Sections 5, 6, 7 and 8.
Section 17, Lots 1, 2, 3, W $\frac{1}{2}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$,
N $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$.
Sections 18 and 19.
Section 20, W $\frac{1}{2}$ NE $\frac{1}{4}$

Township 31 North, Range 37 East

Sections 5, 6, 7 and 8.
Sections 17, 18, 19 and 20.
Sections 29, 30, 31 and 32.

Township 32 North, Range 37 East

Sections 20, 29, 30, 31 and 32.

Area 33,030.36 acres, more or less.

The Unit Operator, with the consent of the owners of a majority, on an acreage basis, of the working interest rights in the unitized land and subject to the approval of the Secretary, the Commissioner and the Commission, may enlarge the unit area to include other lands believed to be productive of the unitized substances, or may with like consent and approval, diminish the unit area to exclude lands not in any participating area hereunder which are

believed to be barren of the unitized substances.

Exhibit "A" attached hereto is a map on which is outlined the herein established Unit Area, together with the ownership of the land and leases in said Area. Exhibit "B" attached hereto is a schedule showing the nature and extent of known ownerships of oil and gas rights in all land in the Unit Area. Said exhibits shall be revised by the Unit Operator whenever any change in the unit area or ownership of unitized interests renders such change necessary, and revised exhibits shall be filed with the record of this agreement.

UNITIZED SUBSTANCES
AND LAND:

4. All oil, gas, natural gasoline and associated fluid hydrocarbons producible from land subject to this agreement, in any and all sands or horizons, are unitized under the terms of this agreement and hereinafter are called "unitized substances". The term "unitized land" whenever and wherever used in this agreement is defined as and limited to that part of the land within the unit area which, on the effective date hereof, has been committed to this agreement or which, although not committed hereto on said effective date, may be admitted to unitization through the subsequent execution hereof as hereinafter provided in Section 24.

UNIT OPERATOR:

5. The Pure Oil Company, an Ohio corporation, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it and agrees and consents to accept the duties and obligations of Unit Operator to conduct and manage the operation of said unit area for the discovery and development of unitized substances as hereinafter provided. Herein whenever reference is made to the Unit Operator such reference is understood to mean the unit operator acting in that capacity and not as an owner of interests in unitized substances, and whenever reference is made to an owner of unitized substances, such a reference shall be understood to include any interests in unitized substances owned by the Unit Operator.

The right to resign as Unit Operator may be exercised whenever said Unit Operator is not in default under this agreement, but no Unit Operator shall be relieved from the duties and obligations of Unit Operator for a period of 3 months after notice of intention to relinquish such duties and obligations has been served on all owners of working interests and lessees subject hereto, the Commissioner, and the Secretary of the Interior, unless a new operator shall have been selected and approved and shall have assumed the duties and obligations of Unit Operator prior to the expiration of said 3-month period. The Unit Operator shall be subject to removal by the owners of working interest rights in the unitized land in like manner as herein provided for the selection of a new Unit Operator.

The parties hereto or a duly qualified new Unit Operator may purchase at its then depreciated market value all or any part of the equipment, material, and appurtenances in or upon the land subject to this agreement, owned by the retiring Unit Operator, in its capacity as such operator, or make other arrangements satisfactory to the retiring Unit Operator for the use thereof, provided that no such equipment, material, or appurtenances so selected for purchase shall be removed prior to the effective date of Unit Operator's retirement. Any equipment, material, and appurtenances not so purchased or arranged for as to the use thereof within said time limit and not necessary for the preservation of wells may be removed by the retiring Unit Operator at any time within six (6) months after his relinquishment or removal becomes effective, but if not so removed shall become the joint property of the owners of working interest rights in land then subject to this agreement. The termination of any rights as Unit Operator under this agreement shall not of itself terminate any right, title, or interest which the Unit Operator may then have in the unitized substances, but the Unit Operator shall have the right and option in connection with its resignation to reassign or retransfer to its several predecessors in interest all of its interest in the lands and leases severally acquired from them, together with its working interest in the unitized substances, and upon such delivery

be discharged from any future liability as a working interest owner hereunder; said reassignments to be effective as to said transferee thereupon, subject, however, to the approval of the Secretary as to transfers of interest in lands of the United States and subject, however, to the approval of the Commissioner as to interest in lands of the State of New Mexico.

SUCCESSOR UNIT
OPERATOR:

6. Whenever the Unit Operator shall discontinue or relinquish his rights as Unit Operator or shall fail to fulfill his duties and obligations as Unit Operator under this agreement, the owners of the majority of the unitized working interests in the participating area on an acreage basis, or the owners of working interests according to their total acreage interest in unitized land included in the unit area until a participating area shall have been established, shall select a new Unit Operator; provided, that if less than a three-fourths majority of the working interest rights which are at any time qualified to vote in selecting a new Unit Operator are owned by one party to this agreement then a vote of at least two owners of working interests qualified to vote shall be required to select a new operator. Such selections shall not become effective until (a) a Unit Operator so selected shall agree and consent in writing to accept the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Secretary and the Commissioner. In the absence of the selection of an acceptable Unit Operator by the working interest owners within three (3) months after notice by Unit Operator of intention to relinquish its rights as Unit Operator, this unit agreement shall automatically terminate at the expiration of said three (3) months period; provided, however, that should a participating area or areas have been established and production of the unitized substances taken therefrom, effective only as to the lands within the participating area or areas, the said three month period shall be extended to one year if so required by the Secretary or the Commissioner.

RIGHTS AND
OBLIGATIONS
OF
UNIT OPERATOR:

7. Except as hereinafter specified, the exclusive right, privilege, and duty of exercising any and all rights of the parties signatory hereto which are necessary or convenient for prospecting for, producing, storing, and disposing of the unitized substances are hereby vested in the Unit Operator and shall be exercised by said Unit Operator as provided in this agreement. Acceptable evidence of title to said rights shall be deposited with the Unit Operator and together with this agreement, shall constitute and define said Unit Operator's right, privileges and obligations in the premises; provided that nothing herein shall be construed to transfer any title of any kind, it being understood that under and pursuant to this agreement the Unit Operator, in its capacity as such, shall exercise the rights of possession and use vested in the parties hereto only and exclusively for the purposes herein specified. The Unit Operator shall, subject to and in accordance with the terms and provisions of the operating agreement hereinafter referred to, pay all costs and expenses of operations with respect to the unitized land, and shall charge such costs to the account of the owners of working interest rights in the unitized land in accordance with said operating agreement; no portion of such costs to be charged to the royalty owners, as such.

The development and operation of and upon any portion of the unitized land under the terms hereof shall be deemed full performance by Unit Operator of all obligations for such development and operation with respect to each and every part or separately owned tract subject to this agreement, regardless of whether there is any development of any particular part or tract of the unit area, notwithstanding anything to the contrary in any lease, operating agreement or other contract.

DRILLING
TO
DISCOVERY:

8. Within six months after the effective date of this agreement, Unit Operator shall begin operations on the unitized land to drill an adequate test well at a location to be approved by the

Supervisor, if such location is upon lands of the United States, or to be approved by the Commission if upon State or patented lands, and thereafter continue such drilling diligently until said well shall have been drilled to a depth not less than 6,000 feet unless a deposit of unitized substances which can be produced in paying quantities shall be discovered in said well at a lesser depth, or unless formation is encountered which would render further drilling inadvisable or impracticable. If said first well, drilled as aforesaid, fails to result in the discovery of unitized substances capable of being produced in paying quantities, Unit Operator or his successor shall thereupon commence within six (6) months after the completion of the former well, and drill diligently, one at a time, additional wells until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Supervisor and Commissioner, or until it is reasonably proved that the unitized land is incapable of producing the unitized substances in paying quantities, provided, that the Secretary and the Commissioner may grant extensions of time for the commencement of any such well, and provided further that nothing herein contained shall preclude any Operator from effectively resigning as provided in Section 5 hereof before any obligation to commence a second or subsequent well accrues hereunder, and be relieved of the obligation to commence such well. Upon failure to comply with the drilling requirements of this section this unit agreement will be subject to cancellation after reasonable notice by the Secretary and the Commissioner.

PLAN OF
DEVELOPMENT
AND OPERATION:

9. Within sixty (60) days from completion of a well capable of producing the unitized substances as aforesaid, Unit Operator shall submit for the approval of the Supervisor, the Commissioner and the Commission, an acceptable plan of development and operation for the Unit Area, which plan or subsequent modifications thereof, when so approved, shall constitute the further drilling and operating obligations of the Unit Operator. Reasonable diligence shall be exercised by Unit Operator in complying with any plan of development approved hereunder. Said plan for further development and operation on like approval shall be modified from time to time whenever necessary to meet changed conditions or to protect the interests of all parties to this agreement and the further obligations of the Unit Operator shall be conformed thereto; provided further that in no event shall the Unit Operator under any such plan, or otherwise, be under any obligation to drill any well to any formation that does not afford a fair possibility for encountering the unitized substances in paying quantities. Well drilling operations, including well completions, producing practices and well abandonments, shall be in accordance with the Plan of Development and Operation. All operations hereunder shall be subject to the approval by the Supervisor as to wells on federal land and by the Commission as to wells on state and patented land.

During any period when it shall appear that an acceptable plan of development cannot be adopted because of the inability of the Supervisor, the Commissioner and the Commission to agree upon the terms thereof, the Unit Operator may, in accordance with the applicable regulations referred to in Section 1 hereof, proceed with reasonable diligence to drill other wells to determine the limits of production and to develop the productive portion of the unit area, and may and shall operate all productive wells in conformity with good operating practices, and the conservation principles of this agreement.

PARTICIPATION
AFTER
DISCOVERY:

10. Upon completion of a productive well as aforesaid, Unit Operator shall submit for the approval of the Secretary, the Commissioner and the Commission, a schedule, based on sub-divisions of the public land survey, of unitized lands then regarded as reasonably proved to be productive of unitized substances in paying quantities; all unitized land in said schedule, when approved, to constitute a participating area effective as of the date of first production. Said schedule shall set forth the percentage acreage interest of each owner of rights in the participating area thereby established. Such percentage acreage interest shall govern the allocation

of production from and after the date the participating area becomes effective and until the date of the effectiveness of an approved revision thereof. With the approval of the Secretary, Commissioner and the Commission, a separate participating area may be established for any separate deposit of unitized substances or for any group of such deposits. The participating area or areas so established shall be revised from time to time, in like manner and subject to like approval: (a) whenever such action appears proper as a result of further drilling operations, to include additional unitized land then regarded as reasonably proved to be productive in paying quantities, or (b) whenever, pursuant to Section 24 hereof, but subject to the approval therein provided for, any tract known or believed to be productive in paying quantities becomes eligible for inclusion in a participating area; and a new schedule of percentage acreage interests conformable to such revision shall thereupon be fixed. The effective date of any such enlargement shall be the date of first production from the well which reasonably demonstrates the productivity of the additional unitized land included, except that for an enlargement to embrace a tract rendered eligible for inclusion through the operation of the provisions of said Section 24 the effective date shall be the first day of the calendar month next following the date of the approval provided for in said Section 24. Additional unitized land included in an enlargement of a participating area may, but need not, be contiguous to the unitized land previously embraced thereby. Should further development following the establishing of separate participating areas demonstrate the existence of a single deposit of unitized substances rather than separate deposits, then the two or more participating areas may be consolidated as a single participating area; the effective date of such consolidation to be the date of first production from the well which demonstrates the continuity of the single deposit. No land, or any interest therein, once included in a participating area shall be excluded from such participating area on account of depletion of the unitized substances therefrom or for any cause save loss of title. In the event title to a tract of unitized land once included in a participating area or any portion thereof, or any interest therein, divided or undivided, should fail, then the net interest only on which title has failed shall be excluded from the participating area unless the owners of a majority, on an acreage basis, of the working interest rights in the participating area affected, deem impracticable the continued operation of the remaining portion of said tract, or the remaining interest therein as a part of said participating area, in which event the entire tract and all interest therein shall be excluded; otherwise, said tract, as to the portion thereof, or the net interest therein to which the title shall not have failed, shall retain its character as unitized land and continue as a part of said participating area, notwithstanding any other provision hereof. The effective date of any revision of a participating area occasioned by loss of title shall be the date of the final determination of the question of title, by judgment, decree, settlement or otherwise, unless by the terms of such determination a different date be specified. It is the intent of this Section that the participating area or areas shall at all times represent as nearly as possible the area known or reasonably estimated to be, or to have been, productive in paying quantities; but, regardless of any increase, decrease or consolidation of any participating areas, nothing herein contained shall be construed as requiring any retroactive apportionment of any sums accrued or paid for production obtained prior to the effective date of a revision thereof.

Until a participating area or areas has or have been established as herein provided, or in the absence of agreement at any time between the Unit Operator, the Secretary, the Commissioner, and the Commission as to the proper boundaries of a participating area, the portion of all payments affected by such absence of agreement, except the royalties due the United States and the State of New Mexico, may be impounded in a manner mutually acceptable to the owners of working interest rights in unitized land.

DEVELOPMENT OF
LANDS OUTSIDE
THE
PARTICIPATING
AREA:

11. It is understood that the owners of working interest rights in the unitized land are entering into an operating agreement pertaining to matters of interest only to owners of working interest rights therein, which operating agreement is and shall be subordinate to the provisions of

this unit agreement concerning operations and development in the unit area. Subject hereto, all drilling and development operations shall be conducted upon unitized land in accordance with the provisions of said operating agreement. In the event, pursuant to said operating agreement, a well be drilled by the Unit Operator, or by a working interest owner other than Unit Operator, upon unitized land not within a participating area, then (a) if such well results in production of unitized substances in quantities sufficient to justify inclusion of additional lands in a participating area either the land reasonably believed to be proven productive shall be added to an established participating area, or, if a separate deposit is discovered, a separate participating area shall be established, in the manner provided in Section 10 hereof, and the investment costs incident to the drilling and operation thereof shall be borne by certain owners of working interest rights as provided in said operating agreement; or (b) if such well be non-productive of unitized substances or results in production of unitized substances in producible quantities but in quantities insufficient to justify the inclusion of such well and the tract upon which it is located in a participating area, neither such well nor the tract upon which it is located shall be added to a participating area, or included in a separate participating area, but the investment costs incident to the drilling thereof, and if produced to the operation thereof, shall be borne by certain working interest owners on the basis provided in the aforementioned operating agreement; in such case, such well, if produced, shall be produced subject to the drilling and producing requirements hereof, and royalties in amount or value of production from such well, as well as rental charges, if any, as specified in the lease affected, shall be paid to the lessor therein by the party operating said well. The determination as to the capacity of wells drilled hereunder shall be made by the Unit Operator whose judgment exercised in good faith shall be binding and conclusive when approved by the Secretary of the Interior and the Commissioner.

ALLOCATION
OF
PRODUCTION
ROYALTIES:

12. Subject to the provisions of Section 11, all unitized substances produced under this agreement, except any part thereof unavoidably lost, or used for production and development purposes hereunder, which may be so used by the Unit

Operator royalty free, shall be deemed to be produced equally on an acreage basis from the several tracts of land of the same participating area, and for the purpose of determining any benefits that accrue on an acreage basis as a result of operations under this agreement, each such tract shall have allocated to it such percentage of said production as its area bears to the said participating area of which it is a part. Unitized substances produced from any participating area and used in conformity with good operating practice under an approved plan of operation for repressuring or cycling in the same participating area shall be free from any royalty charge.

If Unit Operator introduces gas obtained from sources other than the unitized substances into any participating area hereunder for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan first approved by the Supervisor, the Commissioner and the Commission, a like amount of gas less a due allowance for gas consumed in plant operations or unavoidably lost may be drawn 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 the plan of operation or as may otherwise be consented to by the Supervisor, the Commissioner and the Commission, as conforming to good petroleum engineering practice, and provided further that such right of withdrawal shall terminate on the termination of the unit agreement.

Except as otherwise herein provided, royalties shall be paid or delivered as provided by existing leases or contracts, at the lease or contract rate upon the unitized substances allocated to the lease or tract. Settlement shall be made on or before the 20th day of each month for the unitized substances produced and saved during the preceding calendar month. Such royalties shall be paid by the party operating the wells, but nothing

herein shall operate to relieve the lessees, or any of them, of their primary obligation to pay rentals and royalties under the terms of their respective leases.

The right is hereby secured to the United States and the State of New Mexico under existing or future laws and regulations to elect to take their respective royalty shares in kind or value.

GOVERNMENT
ROYALTIES:

13. Royalty due the United States on account of unitized lands owned by the United States shall be computed as provided in the operating regulations and paid as to all unitized substances on the basis of the amounts thereof allocated to such land as provided herein at the rate specified in the respective federal leases; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined for each participating area in accordance with the operating regulations as though all of the unitized lands within each participating area of which such land is a part were a single consolidated lease. During the period of the national emergency declared by the President May 27, 1941, Proclamation No. 2487, 55 Stat. 1647, upon a determination by the Secretary of the Interior that a new oil or gas field or deposit has been discovered by virtue of a well or wells drilled under this agreement, the royalty on production from such new field or deposit allocated to Federal land subject to this agreement at the time of such discovery shall, during the 10-year period following the date of such discovery, be paid in value or delivered in kind at a flat rate of $12\frac{1}{2}$ per centum unless a lower rate is prescribed in the leases.

RENTALS:

14. Except as above provided in Section 11, the Unit Operator, on behalf of the respective lessees, shall undertake with reasonable diligence to pay all rentals of whatsoever kind on account of unitized land and shall charge the cost thereof to the appropriate parties conformably with their respective rental obligations. Rental for land of the United States subject to this agreement at the rate specified in the respective leases from the United States shall be paid, suspended, or reduced as may be determined by the Secretary pursuant to applicable law and regulations. The Unit Operator may apply the allocated royalty share of the unitized substances of the United States to repayment for rentals advanced hereunder on federal leases to the same extent as otherwise allowed in the case of an individual federal lease. Nothing herein contained shall operate to relieve any lessee of his primary obligation to pay the rentals under the terms of his respective lease or leases, or to render the Unit Operator liable to any working interest owner or other party because of any erroneous payment or failure to make timely payment of any rental which may become due.

CONSERVATION:

15. Operations and production of unitized substances shall be conducted so as to provide for the most economical and efficient recovery of unitized substances to the end that maximum ultimate yield may be obtained without waste. Production of unitized substances shall at all times be without waste as defined by or pursuant to state or federal law or regulations.

DRAINAGE:

16. Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or with the approval of the Secretary as to federal interests and of the Commissioner as to state interests, and at the election of the Unit Operator as to private interests, pay a fair and reasonable compensatory royalty, as determined by the Supervisor as to federal interests, and the Commissioner as to state interests subject to this agreement, and by agreement between the Unit Operator and royalty owners, as to private interests.

NON-UNITIZED

LAND:

17. Any land within the unit area not subject to the terms of this agreement which is now or hereafter may be under control of any or all of the signatories to this agreement shall be developed and operated in accordance with the terms of this agreement to the extent that such development and operation shall not conflict with the contract under which control of the said land is held.

LEASES AND
CONTRACTS
CONFORMED
TO
AGREEMENT:

18. The parties hereto or consenting hereto holding interests in leases embracing unitized land of the United States or of the State of New Mexico consent that the Secretary and the Commissioner respectively may, and said Secretary and Commissioner, by their approval of this agreement, do hereby establish, alter, change or revoke the drilling, producing and royalty requirements of such leases and the regulations in respect thereto, to conform said requirements to the provisions of this agreement, but otherwise the terms and conditions of said leases shall remain in full force and effect.

The parties hereto owning interests in unitized lands other than those of the United States or the State of New Mexico, by subscribing or consenting to this agreement do hereby severally agree that the respective leases covering their several lands or interests therein may be and remain in force and effect as herein provided: (a) Until all or a portion of the unitized land covered by any such lease shall have been included in a participating area established and approved hereunder the delay rental provisions of each such lease shall be and remain as in such lease contained. (b) From and after the effective date of the inclusion of all of the unitized land covered by any such lease in a participating area established and approved hereunder, said lease shall be and is hereby extended without further delay rental obligation as to all of the unitized land covered thereby for the full term of this unit agreement. (c) From and after the effective date of the inclusion of a portion of the unitized land covered by any such lease in a participating area established and approved hereunder, all provisions of said lease relating to the payment of delay rentals shall be satisfied as to the portion of said land so included, and such lease shall be and is hereby extended as to the unitized lands covered thereby so included in a participating area without further delay rental obligation for the full term of this unit agreement. (d) After a portion of the unitized land covered by any such lease has been included in a participating area, such lease may be maintained in force and effect as to the non-included portion of the unitized land covered thereby by the payment or tender of delay rentals at the rate and in the manner specified in such lease. (e) In the event all or any portion of the unitized land covered by any such lease is not included in a participating area at the expiration of the primary term of such lease, the term of such lease is hereby extended to run concurrently with the term of this unit agreement and such lease may be maintained in force and effect during said extended term as to all or the non-included portion of the acreage covered thereby through the continued payment of delay rentals as hereinabove provided.

The Secretary, Commissioner, and, except as otherwise provided in the preceding paragraph of this Section, all parties hereto further determine, agree and consent that during the effective life of this agreement, drilling and producing operations performed by the Unit Operator upon any unitized land will be accepted and deemed to be operations under and for the benefit of all unitized leases subject hereto; that no such lease shall be deemed to expire by reason of failure to produce wells situated on land therein embraced; that if a discovery of a valuable deposit of unitized substances is made anywhere on the unitized land, each such lease in effect on or after the date of such discovery shall be deemed to continue in force and effect as to land in the unit area, so long as unitized substances are produced anywhere on unitized land in paying quantities; that prior to such discovery of unitized substances anywhere on unitized land the expiration date of each lease of Federal land shall be the date prescribed in the lease subject to such preferential right to a new lease as may be authorized

by law; and the suspension of all operations and production on the unitized land pursuant to direction or consent of said Secretary and Commissioner shall be deemed to constitute such suspension pursuant to such direction or consent with respect to each such lease, and that no lease shall expire on account of such suspension, as to land in the unit area.

The parties hereto or consenting hereto, holding interests in leases subject to this agreement embracing unitized lands other than those of the United States or of the State of New Mexico or holding interests in any other agreements that involve oil and gas rights in lands in the Unit Area, subject to the provisions of Section 4 hereof, consent and agree to the extent of their respective interests, that all such leases and agreements shall conform to the provisions of this agreement.

COVENANTS
RUN WITH
LAND:

19. The covenants herein run with the land until this agreement terminates, and any grant, transfer or lease 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, lessee, or other successor in interest and as to federal land, shall be subject to approval by the Secretary and as to lands of the State of New Mexico shall be subject to the approval of the Commissioner. No transfer of any interest in and to any of the unitized lands or affecting the production therefrom shall be binding upon the Unit Operator until the first day of the next calendar month after the Unit Operator has been furnished with an original, photostatic or certified copy of the instrument of transfer.

EFFECTIVE
DATE AND
TERM:

20. This agreement shall become effective on the first day of the calendar month next following approval by the Secretary or the Commissioner, whichever last approves the same; provided that nothing herein shall be construed to waive or limit the right of the Commission to approve this agreement pursuant to state law. This agreement shall terminate five (5) years from and after its effective date unless (1) such date of expiration is extended by the Secretary and the Commissioner; or (2) a discovery of unitized substances in paying quantities has been made on unitized land, in which case this agreement shall remain in effect as long as unitized substances can be produced from the unitized land in paying quantities; or (3) it is proved at an earlier date that the Unit Area is incapable of production of unitized substances in paying quantities, and with the approval of the Secretary and the Commissioner, notice of termination is given by Unit Operator to all parties in interest by letter addressed to them at their last known address; or (4) it is terminated as provided in Sections 6 or 8 hereof; provided that, with the approval of the Secretary and the Commissioner, this agreement may be terminated at any time with the consent of the owners of 75% on an acreage basis, of the working interest rights in the unitized land.

RATE OF PROSPECT-
ING, DEVELOPMENT,
AND PRODUCTION:

21. All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute; provided, that the Secretary of the Interior is vested with authority pursuant to the amendatory acts of March 4, 1931, and of August 21, 1935, supra, to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided further that no such alteration or modification shall be effective as to any lands of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and

rate of production in the absence of specific written approval thereof by the Commission.

FORCE

MAJEURE:

22. Failure or delay in the performance of the terms, conditions, and covenants hereof, shall not cause this contract to expire, terminate, or be forfeited in whole or in part, nor subject the Unit Operator or other party otherwise liable therefor to liability in damages, to the extent and so long as such prompt performance is hindered, delayed or prevented by any federal or state law, executive order, rule or regulation, or to the extent and so long as such performance is hindered, delayed or prevented by an Act of God, of the public enemy, governmental interference or restraint, inability to obtain material or equipment, labor disputes, failure of transportation, or other cause, whether similar or dissimilar, beyond the control of the party in interest.

NON-

DISCRIMINATION:

23. The Unit Operator expressly agrees that in any and all operations conducted hereunder, it shall not discriminate against any employee or applicant for employment because of race, creed, color, or national origin, and shall require an identical provision to be included in all subcontracts.

SUBSEQUENT

JOINER:

24. Any person owning rights in the unitized substances within the unit area which have not been committed hereto prior to the effective date hereof, may nevertheless thereafter subscribe this agreement, and if such parties are working interest owners they shall also subscribe the operating agreement and comply with all terms and conditions therein set forth; provided, however, that no tract or tracts which have been, are, or may reasonably be believed to be productive of unitized substances at the time of such subsequent execution hereof, shall be thereby rendered eligible for inclusion in a participating area, without the approval and consent of the owners of a majority, on an acreage basis, of the working interest rights in the affected participating area as existing at the time of the subsequent execution; or, in the event no participating area shall have been established, no execution hereof subsequent to the effective date of this agreement shall make any tract or tracts subject to treatment hereunder as unitized land without the approval and consent of the owners of a majority, on an acreage basis, of the working interest rights in the unitized land as comprised at the time of such subsequent execution; provided, further, in no event shall any retroactive apportionment of any sums accrued or paid for production be required by reason of the execution hereof by any party subsequent to the effective date of this agreement.

CONFLICT

OF
SUPERVISION

25. Neither the Unit Operator nor the working interest owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability for delay or failure in whole or in part to comply therewith to the extent that said Unit Operator working interest owners or any of them are hindered, delayed, or prevented from complying therewith by reason of failure of Unit Operator to obtain the joint consent of the representatives of the United States and the representatives of the State of New Mexico in and about any matter or thing concerning which it is required herein that such joint consent be obtained. The parties hereto and consenting hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provision of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

LOSS OF TITLE:

26. In the event of a dispute as to title as to any interest in unitized land, Unit Operator may withhold payment on account thereof without liability for interest until the dispute is finally settled; provided that, as to Federal lands or leases, no payments of funds due the United States shall be so withheld but such funds shall be deposited with the Register of the District Land Office to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

COUNTERPARTS:

27. This agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, the parties have hereunto set their hands and have set opposite their respective names the date of execution.

UNIT OPERATOR

Date MARCH 26th, 1946

THE PURE OIL COMPANY

Attest:

By 
Manager, Southwestern Producing Division.

Assistant Secretary.

WORKING INTEREST OWNERS

Date MARCH 26th, 1946

THE PURE OIL COMPANY

Attest:

By 
Manager, Southwestern Producing Division.

Assistant Secretary.

SOLE HEIRS OF ESTATE OF BELLE STONE BARRY.

Date _____, 1946

By _____
David Barry, Jr.

Date _____, 1946

Barry.

Date _____, 1946

Ellis Lafferty.

Date _____, 1946

Charles S. Rexroad.

Date _____, 1946.

H. C. Collister

Date _____, 1946

F. H. Brierton.

Date _____, 1946

Al Andreano

Date _____, 1946

Virginia Andreano

APPROVED THIS _____ DAY OF _____, A.D. 1946

Commissioner of Public Lands of the State of New Mexico

APPROVED THIS _____ DAY OF _____, A.D. 1946

OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO

By _____

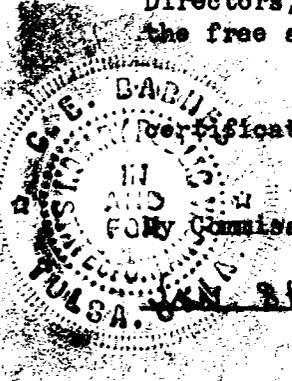
STATE OF OKLAHOMA)
)
COUNTY OF TULSA)

On this 26th day of MARCH, 1946, before me appeared JOHN D. McNUTT, to me personally known, who, being by me duly sworn, did say that he is the Manager, Southwestern Producing Division of The Pure Oil Company, an Ohio Corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and the said JOHN D. McNUTT acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and official seal the day and year in this certificate first above written.

My Commission expires:

C. E. Barnes
Notary Public



STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 1946, before me personally appeared David Barry, Jr. and _____ Barry, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

Given under my hand and official seal the day and year in this certificate first above written.

My Commission expires:

Notary Public

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 1946, before me personally appeared Ellis Lafferty and _____ Lafferty, his wife, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

Given under my hand and official seal the day and year in this certificate first above written.

My Commission expires:

Notary Public

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 1946, before me personally appeared Charles S. Rexroad and _____ Rexroad, his wife, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

Given under my hand and official seal the day and year in this certificate first above written.

My Commission expires: _____

Notary Public

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 1946, before me personally appeared H. C. Collister and _____ Collister, his wife, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

Given under my hand and official seal the day and year in this certificate first above written.

My Commission expires: _____

Notary Public

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 1946, before me personally appeared F. H. Brierton and _____ Brierton, his wife, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

Given under my hand and official seal the day and year in this certificate first above written.

My Commission expires: _____

Notary Public

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 1946, before me personally appeared Al Andreano and Virginia Andreano, his wife, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

Given under my hand and official seal the day and year in this certificate first above written.

My Commission expires:

Notary Public