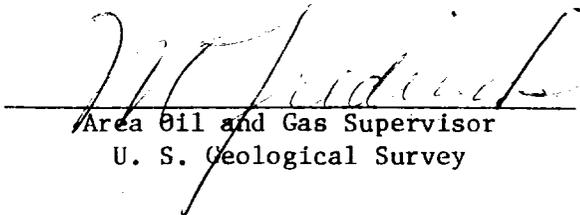


## CERTIFICATION - DETERMINATION

Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Oil and Gas Supervisors of the Geological Survey (33 F.R. 5812), I do hereby:

- A. Approve the attached agreement for the development and operation of the Loafer Draw Unit Area, State of New Mexico.
- B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.
- C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal lease committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated: November 23, 1973

  
Area Oil and Gas Supervisor  
U. S. Geological Survey

Contract No. 14-08-0001-13807

UNIT AGREEMENT  
LOAFER DRAW UNIT AREA  
EDDY COUNTY, NEW MEXICO

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UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION

OF THE

LOAFER DRAW UNIT AREA

COUNTY OF EDDY

STATE OF NEW MEXICO

NO. \_\_\_\_\_

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THIS AGREEMENT, entered into as of the 15th day of October, 1973, 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 and gas interests in the unit area subject to this agreement; and

WHEREAS the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 7-11-39 N.M. Statutes 1953 Annotated) 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 (Article 3, Chapter 65, Vol. 9, Part 2, 1953 Statutes) to approve this agreement and the conservation provisions hereof; and

WHEREAS the parties hereto hold sufficient interests in the Loafer Draw Unit Area covering the land hereinafter described to give reasonably effect

1 tive control of operations therein; and 1

2 WHEREAS it is the purpose of the parties hereto to conserve natural re- 2  
3 sources, prevent waste, and secure other benefits obtainable through devel- 3  
4 opment and operation of the area subject to this agreement under the terms, 4  
5 conditions, and limitations herein set forth; 5

6 NOW, THEREFORE, in consideration of the premises and the promises here- 6  
7 in contained, the parties hereto commit to this agreement their respective 7  
8 interests in the below-defined unit area, and agree severally among them- 8  
9 selves as follows: 9

10 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 10  
11 February 25, 1920, as amended, supra, and all valid pertinent regulations, 11  
12 including operating and unit plan regulations heretofore issued thereunder or 12  
13 valid, pertinent, and reasonable regulations hereafter issued thereunder are 13  
14 accepted and made a part of this agreement as to Federal lands, provided such 14  
15 regulations are not inconsistent with the terms of this agreement; and as to 15  
16 non-Federal lands, the oil and gas operating regulations in effect as of the 16  
17 effective date hereof governing drilling and producing operations, not incon- 17  
18 sistent with the terms hereof or the laws of the State in which the non- 18  
19 Federal land is located, are hereby accepted and made a part of this agree- 19  
20 ment. 20

21 2. UNIT AREA. The area specified on the map attached hereto marked 21  
22 Exhibit A is hereby designated and recognized as constituting the unit area, 22  
23 containing 5,843.52 acres, more or less. 23

24 Exhibit A shows, in addition to the boundary of the unit area, the 24  
25 boundaries and identity of tracts and leases in said area to the extent known 25  
26 to the Unit Operator. Exhibit B attached hereto is a schedule showing to the 26  
27 extent known to the Unit Operator the acreage, percentage, and kind of own- 27  
28 ership of oil and gas interests in all land in the unit area. However, 28  
29 nothing herein or in said schedule or map shall be construed as a representa- 29  
30 tion by any party hereto as to the ownership of any interest other than such 30  
31 interest or interests as are shown in said map or schedule as owned by such 31  
32 party. Exhibits A and B shall be revised by the Unit Operator whenever 32  
33 changes in the unit area render such revision necessary, or when requested 33  
34 by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or 34

1 when requested by the Commissioner of Public Lands of the State of New Mexico, 1  
2 hereinafter referred to as "Commissioner," and not less than five copies of 2  
3 the revised exhibits shall be filed with the Supervisor, and two copies 3  
4 thereof shall be filed with the Commissioner, and one copy with the New 4  
5 Mexico Oil Conservation Commission, hereinafter referred to as "Commission." 5

6 The above-described unit area shall when practicable be expanded to 6  
7 include therein any additional lands or shall be contracted to exclude lands 7  
8 whenever such expansion or contraction is deemed to be necessary or advisable 8  
9 to conform with the purposes of this agreement. Such expansion or contrac- 9  
10 tion shall be effected in the following manner: 10

11 (a) Unit Operator, on its own motion or on demand of the Director 11  
12 of the Geological Survey, hereinafter referred to as "Director," or on de- 12  
13 mand of the Commissioner, after preliminary concurrence by the Director and 13  
14 the Commissioner, shall prepare a notice of proposed expansion or contraction 14  
15 describing the contemplated changes in the boundaries of the unit area, the 15  
16 reasons therefor, and the proposed effective date thereof, preferably the 16  
17 first day of a month subsequent to the date of notice. 17

18 (b) Said notice shall be delivered to the Supervisor, the Commis- 18  
19 sioner and the Commission and copies thereof mailed to the last known address 19  
20 of each working interest owner, lessee, and lessor whose interests are af- 20  
21 fected, advising that 30 days will be allowed for submission to the Unit Op- 21  
22 erator of any objections. 22

23 (c) Upon expiration of the 30-day period provided in the preceding 23  
24 item (b) hereof, Unit Operator shall file with the Supervisor, the Commis- 24  
25 sioner and the Commission evidence of mailing of the notice of expansion or 25  
26 contraction and a copy of any objections thereto which have been filed with 26  
27 the Unit Operator, together with an application in sufficient number, or 27  
28 approval of such expansion or contraction and with appropriate joinders. 28

29 (d) After due consideration of all pertinent information, the ex- 29  
30 pansion or contraction shall, upon approval by the Supervisor, the Commis- 30  
31 sioner and the Commission, become effective as of the date prescribed in the 31  
32 notice thereof. 32

33 (e) All legal subdivisions of lands (i.e., 40 acres by Government 33  
34 survey or its nearest lot or tract equivalent; in instances of irregular 34

1 surveys, unusually large lots or tracts shall be considered in multiples of 1  
2 40 acres or the nearest aliquot equivalent thereof), no parts of which are 2  
3 entitled to be in a participating area on or before the fifth anniversary of 3  
4 the effective date of the first initial participating area established under 4  
5 this unit agreement, shall be eliminated automatically from this agreement, 5  
6 effective as of said fifth anniversary, and such lands shall no longer be a 6  
7 part of the unit area and shall no longer be subject to this agreement, un- 7  
8 less diligent drilling operations are in progress on unitized lands not en- 8  
9 titled to participation on said fifth anniversary, in which event all such 9  
10 lands shall remain subject hereto so long as such drilling operations are 10  
11 continued diligently, with not more than 90 days' time elapsing between the 11  
12 completion of one well and the commencement of the next well. All legal 12  
13 subdivisions of lands not entitled to be in a participating area within 10 13  
14 years after the effective date of the first initial participating area ap- 14  
15 proved under this agreement shall be automatically eliminated from this 15  
16 agreement as of said tenth anniversary. All lands proved productive by 16  
17 diligent drilling operations after the aforesaid 5-year period shall become 17  
18 participating in the same manner as during said 5-year period. However, 18  
19 when such diligent drilling operations cease, all nonparticipating lands 19  
20 shall be automatically eliminated effective as of the 91st day thereafter. 20  
21 The Unit Operator shall, within 90 days after the effective date of any elim- 21  
22 ination hereunder, describe the area so eliminated to the satisfaction of 22  
23 the Supervisor and the Commissioner, and promptly notify all parties in in- 23  
24 terest. 24

25 If conditions warrant extension of the 10-year period specified in 25  
26 this subsection 2(e), a single extension of not to exceed 2 years may be 26  
27 accomplished by consent of the owners of 90% of the working interests in 27  
28 the current nonparticipating unitized lands and the owners of 60% of the 28  
29 basic royalty interests (exclusive of the basic royalty interests of the 29  
30 United States) in nonparticipating unitized lands with approval of the 30  
31 Director and Commissioner, provided such extension application is submitted 31  
32 to the Director and Commissioner not later than 60 days prior to the expira- 32  
33 tion of said 10-year period. 33

34 Any expansion of the unit area pursuant to this section which em- 34

1 braces lands theretofore eliminated pursuant to this subsection 2(e) shall 1  
2 not be considered automatic commitment or recommitment of such lands. 2

3 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this 3  
4 agreement shall constitute land referred to herein as "unitized land" or 4  
5 "land subject to this agreement." All oil and gas in any and all formations 5  
6 of the unitized land are unitized under the terms of this agreement and 6  
7 herein are called "unitized substances." 7

8 4. UNIT OPERATOR. Cities Service Oil Company is hereby designated as 8  
9 Unit Operator and by signature hereto as Unit Operator agrees and consents 9  
10 to accept the duties and obligations of Unit Operator for the discovery, 10  
11 development and production of unitized substances as herein provided. When- 11  
12 ever reference is made herein to the Unit Operator, such reference means the 12  
13 Unit Operator acting in that capacity and not as an owner of interest in 13  
14 unitized substances, and the term "working interest owner" when used herein 14  
15 shall include or refer to Unit Operator as the owner of a working interest 15  
16 when such an interest is owned by it. 16

17 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have 17  
18 the right to resign at any time prior to the establishment of a participating 18  
19 area or areas hereunder, but such resignation shall not become effective so 19  
20 as to release Unit Operator from the duties and obligations of Unit Operator 20  
21 and terminate Unit Operator's rights as such for a period of 6 months after 21  
22 notice of intention to resign has been served by Unit Operator on all work- 22  
23 ing interest owners and the Supervisor, the Commissioner and the Commission, 23  
24 and until all wells then drilled hereunder are placed in a satisfactory con- 24  
25 dition for suspension or abandonment, whichever is required by the Supervisor 25  
26 as to Federal lands and by the Commission as to State and privately owned 26  
27 lands, unless a new Unit Operator shall have been selected and approved and 27  
28 shall have taken over and assumed the duties and obligations of Unit Operator 28  
29 prior to the expiration of said period. 29

30 Unit Operator shall have the right to resign in like manner and 30  
31 subject to like limitations as above provided at any time a participating 31  
32 area established hereunder is in existence, but, in all instances of resigna- 32  
33 tion or removal, until a successor Unit Operator is selected and approved as 33  
34 hereinafter provided, the working interest owners shall be jointly responsible 34

1 for performance of the duties of Unit Operator, and shall, not later than 30 1  
2 days before such resignation or removal becomes effective, appoint a common 2  
3 agent to represent them in any action to be taken hereunder. 3

4 The resignation of Unit Operator shall not release Unit Operator 4  
5 from any liability for any default by it hereunder occurring prior to the 5  
6 effective date of its resignation. 6

7 The Unit Operator may, upon default or failure in the performance 7  
8 of its duties or obligations hereunder, be subject to removal by the same 8  
9 percentage vote of the owners of working interests as herein provided for the 9  
10 selection of a new Unit Operator. Such removal shall be effective upon no- 10  
11 tice thereof to the Supervisor and the Commissioner. 11

12 The resignation or removal of Unit Operator under this agreement 12  
13 shall not terminate its right, title or interest as the owner of a working 13  
14 interest or other interest in unitized substances, but upon the resignation 14  
15 or removal of Unit Operator becoming effective, such Unit Operator shall de- 15  
16 liver possession of all wells, equipment, materials and appurtenances used 16  
17 in conducting the unit operations to the new duly qualified successor Unit 17  
18 Operator or to the common agent, if no such new Unit Operator is elected, to 18  
19 be used for the purpose of conducting unit operations hereunder. Nothing 19  
20 herein shall be construed as authorizing removal of any material, equipment 20  
21 and appurtenances needed for the preservation of any wells. 21

22 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender 22  
23 his or its resignation of Unit Operator or shall be removed as hereinabove 23  
24 provided, or a change of Unit Operator is negotiated by working interest 24  
25 owners, the owners of the working interests in the participating area or 25  
26 areas according to their respective acreage interests in such participating 26  
27 area or areas, or, until a participating area shall have been established, 27  
28 the owners of the working interests according to their respective acreage in- 28  
29 terests in all unitized land, shall by majority vote select a successor Unit 29  
30 Operator: Provided; That, if a majority but less than 75 percent of the 30  
31 working interests qualified to vote are owned by one party to this agreement, 31  
32 a concurring vote of one or more additional working interest owners shall be 32  
33 required to select a new operator. Such selection shall not become effective 33  
34 until: 34

1 (a) a Unit Operator so selected shall accept in writing the duties 1  
2 and responsibilities of Unit Operator, and 2

3 (b) the selection shall have been approved by the Supervisor and 3  
4 Commissioner. 4

5 If no successor Unit Operator is selected and qualified as herein 5  
6 provided, the Director and Commissioner at their election may declare this 6  
7 unit agreement terminated. 7

8 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit 8  
9 Operator is not the sole owner of working interest, costs and expenses in- 9  
10 curred by Unit Operator in conducting unit operations hereunder shall be paid 10  
11 and apportioned among and borne by the owners of working interests, all in 11  
12 accordance with the agreement or agreements entered into by and between the 12  
13 Unit Operator and the owners of working interests, whether one or more, sepa- 13  
14 rately or collectively. Any agreement or agreements entered into between the 14  
15 working interest owners and the Unit Operator as provided in this section, 15  
16 whether one or more, are herein referred to as the "unit operating agreement." 16  
17 Such unit operating agreement shall also provide the manner in which the work- 17  
18 ing interest owners shall be entitled to receive their respective proportion- 18  
19 ate and allocated share of the benefits accruing hereto in conformity with 19  
20 their underlying operating agreements, leases or other independent contracts, 20  
21 and such other rights and obligations as between Unit Operator and the work- 21  
22 ing interest owners; however, no such unit operating agreement shall be deemed 22  
23 either to modify any of the terms and conditions of this unit agreement or to 23  
24 relieve the Unit Operator of any right or obligation established under this 24  
25 unit agreement, and in case of any inconsistency or conflict between this 25  
26 unit agreement and the unit operating agreement, this unit agreement shall 26  
27 govern. Three true copies of any unit operating agreement executed pursuant 27  
28 to this section should be filed with the Supervisor and two true copies with 28  
29 the Commissioner and one true copy with the Commission, prior to approval of 29  
30 this unit agreement. 30

31 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise spe- 31  
32 cifically provided herein, the exclusive right, privilege, and duty of exer- 32  
33 cising any and all rights of the parties hereto which are necessary or con- 33  
34 venient for prospecting for, producing, storing, allocating, and distributing 34

1 the unitized substances are hereby delegated to and shall be exercised by the 1  
2 Unit Operator as herein provided. Acceptable evidence of title to said rights 2  
3 shall be deposited with said Unit Operator and, together with this agreement, 3  
4 shall constitute and define the rights, privileges, and obligations of Unit 4  
5 Operator. Nothin herein, however, shall be construed to transfer title to 5  
6 any land or to any lease or operating agreement, it being understood that un- 6  
7 der this agreement the Unit Operator, in its capacity as Unit Operator, shall 7  
8 exercise the rights of possession and use vested in the parties hereto only 8  
9 for the purposes herein specified. 9

10 9. DRILLING TO DISCOVERY. Within 6 months after the effective date 10  
11 hereof, the Unit Operator shall begin to drill an adequate test well at a 11  
12 location approved by the Supervisor, if on Federal land, or by the Commission- 12  
13 er if on State land, or by the Commission if on fee land, unless on such ef- 13  
14 fective date a well is being drilled conformably with the terms hereof, and 14  
15 thereafter continue such drilling diligently until the Morrow formation has 15  
16 been tested or until at a lesser depth unitized substances shall be discovered 16  
17 which can be produced in paying quantities (to-wit: quantities sufficient to 17  
18 repay the costs of drilling, completing, and producing operations, with a 18  
19 reasonable profit) or the Unit Operator shall at any time establish to the 19  
20 satisfaction of the Supervisor if located on Federal lands, or the Commis- 20  
21 sioner if located on State lands, or the Commission if located on fee lands, 21  
22 that further drilling of said well would be unwarranted or impracticable, 22  
23 provided, however, that Unit Operator shall not in any event be required to 23  
24 drill said well to a depth in excess of 9,200 feet. Until the discovery of 24  
25 a deposit of unitized substances capable of being produced in paying quanti- 25  
26 ties, the Unit Operator shall continue drilling one well at a time, allowing 26  
27 not more than 6 months between the completion of one well and the beginning 27  
28 of the next well, until a well capable of producing unitized substances in 28  
29 paying quantities is completed to the satisfaction of said Supervisor if on 29  
30 Federal land, or the Commissioner if on State land, or the Commission if on 30  
31 fee land, or until it is reasonably proved that the unitized land is incapa- 31  
32 ble of producing unitized substances in paying quantities in the formations 32  
33 drilled hereunder. Nothing in this section shall be deemed to limit the 33  
34 right of the Unit Operator to resign as provided in Section 5 hereof, or as 34

1 requiring Unit Operator to commence or continue any drilling during the 1  
2 period pending such resignation becoming effective in order to comply with 2  
3 the requirements of this section. The Supervisor and Commissioner may modify 3  
4 the drilling requirements of this section by granting reasonable extensions 4  
5 of time when, in their opinion, such action is warranted. Upon failure to 5  
6 commence any well provided for in this section within the time allowed, in- 6  
7 cluding any extension of time granted by the Supervisor and the Commissioner, 7  
8 this agreement will automatically terminate; upon failure to continue drill- 8  
9 ing diligently any well commenced hereunder, the Supervisor and Commissioner 9  
10 may, after 15 days' notice to the Unit Operator, declare this unit agreement 10  
11 terminated. 11

12 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after 12  
13 completion of a well capable of producing unitized substances in paying quan- 13  
14 tities, the Unit Operator shall submit for the approval of the Supervisor and 14  
15 the Commissioner an acceptable plan of development and operation for the unit- 15  
16 ized land which, when approved by the Supervisor and the Commissioner, shall 16  
17 constitute the further drilling and operating obligations of the Unit Operator 17  
18 under this agreement for the period specified therein. Thereafter, from time 18  
19 to time before the expiration of any existing plan, the Unit Operator shall 19  
20 submit for the approval of the Supervisor and the Commissioner a plan for an 20  
21 additional specified period for the development and operation of the unitized 21  
22 land. 22

23 Any plan submitted pursuant to this section shall provide for the 23  
24 exploration of the unitized area and for the diligent drilling necessary for 24  
25 determination of the area or areas thereof capable of producing unitized sub- 25  
26 stances in paying quantities in each and every productive formation and shall 26  
27 be as complete and adequate as the Supervisor, the Commissioner and Commission 27  
28 may determine to be necessary for timely development and proper conservation 28  
29 of the oil and gas resources of the unitized area and shall: 29

- 30 (a) specify the number and locations of any wells to be drilled 30  
31 and the proposed order and time for such drilling; and 31  
32 (b) to the extent practicable, specify the operating practices 32  
33 regarded as necessary and advisable for proper conservation of 33  
34 natural resources. 34

1 Separate plans may be submitted for separate productive zones, subject to 1  
2 the approval of the Supervisor, the Commissioner and the Commission. 2

3 Plans shall be modified or supplemented when necessary to meet 3  
4 changed conditions or to protect the interests of all parties to this agree- 4  
5 ment. Reasonable diligence shall be exercised in complying with the obliga- 5  
6 tions of the approved plan of development. The Supervisor and Commissioner 6  
7 are authorized to grant a reasonable extension of the 6-month period herein 7  
8 prescribed for submission of an initial plan of development where such action 8  
9 is justified because of unusual conditions or circumstances. After comple- 9  
10 tion hereunder of a well capable of producing any unitized substances in pay- 10  
11 ing quantities, no further wells, except such as may be necessary to afford 11  
12 protection against operations not under this agreement and such as may be 12  
13 specifically approved by the Supervisor and the Commissioner, shall be drilled 13  
14 except in accordance with a plan of development approved as herein provided. 14

15 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable 15  
16 of producing unitized substances in paying quantities or as soon thereafter 16  
17 as required by the Supervisor and Commissioner, the Unit Operator shall sub- 17  
18 mit for approval by the Supervisor and Commissioner a schedule, based on 18  
19 subdivisions of the public land survey or aliquot parts thereof, of all land 19  
20 then regarded as reasonably proved to be productive in paying quantities; all 20  
21 lands in said schedule on approval of the Supervisor and Commissioner to con- 21  
22 stitute a participating area, effective as of the date of completion of such 22  
23 well or the effective date of this unit agreement, whichever is later. The 23  
24 acreages of both Federal and non-Federal lands shall be based upon appropri- 24  
25 ate computations from the courses and distances shown on the last approved 25  
26 public land survey as of the effective date of each initial participating 26  
27 area. Said schedule shall also set forth the percentage of unitized sub- 27  
28 stances to be allocated as herein provided to each tract in the participating 28  
29 area so established, and shall govern the allocation of production commenc- 29  
30 ing with the effective date of the participating area. A separate partici- 30  
31 pating area shall be established for each separate pool or deposit of unit- 31  
32 ized substances or for any group thereof which is produced as a single pool 32  
33 or zone, and any two or more participating areas so established may be com- 33  
34 bined into one, on approval of the Supervisor and Commissioner. When pro- 34

1 duction from two or more participating areas, so established, is subsequently 1  
2 found to be from a common pool or deposit, said participating areas shall be 2  
3 combined into one effective as of such appropriate date as may be approved 3  
4 or prescribed by the Supervisor and Commissioner. The participating area 4  
5 or areas so established shall be revised from time to time, subject to like 5  
6 approval, to include additional land then regarded as reasonably proved to 6  
7 be productive in paying quantities or necessary for unit operations, or to 7  
8 exclude land then regarded as reasonably proved not to be productive in pay- 8  
9 ing quantities and the schedule of allocation percentages shall be revised 9  
10 accordingly. The effective date of any revision shall be the first day of 10  
11 the month in which is obtained the knowledge or information on which such 11  
12 revision is predicated, provided, however, that a more appropriate effective 12  
13 date may be used if justified by the Unit Operator and approved by the Super- 13  
14 visor and Commissioner. No land shall be excluded from a participating area 14  
15 on account of depletion of the unitized substances, except that any partici- 15  
16 pating area established under the provisions of this unit agreement shall 16  
17 terminate automatically whenever all completions in the formation on which 17  
18 the participating area is based are abandoned. 18

19 It is the intent of this section that a participating area shall 19  
20 represent the area known or reasonably estimated to be productive in paying 20  
21 quantities, but, regardless of any revision of the participating area, noth- 21  
22 ing herein contained shall be construed as requiring any retroactive adjust- 22  
23 ment for production obtained prior to the effective date of the revision of 23  
24 the participating area. 24

25 In the absence of agreement at any time between the Unit Operator 25  
26 and the Supervisor and Commissioner as to the proper definition or redefini- 26  
27 tion of a participating area, or until a participating area has, or areas 27  
28 have, been established as provided herein, the portion of all payments af- 28  
29 fected thereby shall be impounded in a manner mutually acceptable to the own- 29  
30 ers of working interests and the Supervisor and Commissioner. Royalties due 30  
31 the United States and the State of New Mexico, which shall be determined by 31  
32 the Supervisor for Federal land and the Commissioner for State land and the 32  
33 amount thereof shall be deposited, as directed by the Supervisor and Commis- 33  
34 sioner respectively, to be held as unearned money until a participating area 34

1 is finally approved and then applied as earned or returned in accordance with 1  
2 a determination of the sum due as Federal and State royalty on the basis of 2  
3 such approved participating area. 3

4 Whenever it is determined, subject to the approval of the Supervisor 4  
5 as to wells drilled on Federal land and of the Commissioner as to wells 5  
6 drilled on State land, that a well drilled under this agreement is not capable 6  
7 of production in paying quantities and inclusion of the land on which it is 7  
8 situated in a participating area is unwarranted, production from such well 8  
9 shall, for the purposes of settlement of all parties other than working in- 9  
10 terest owners, be allocated to the land on which the well is located unless 10  
11 such land is already within the participating area established for the pool 11  
12 or deposit from which such production is obtained. Settlement for working 12  
13 interest benefits from such a well shall be made as provided in the unit 13  
14 operating agreement. 14

15 12. ALLOCATION OF PRODUCTION. All unitized substances produced from 15  
16 each participating area established under this agreement, except any part 16  
17 thereof used in conformity with good operating practices within the unitized 17  
18 area for drilling, operating, camp and other production or development pur- 18  
19 poses, for repressuring or recycling in accordance with a plan of develop- 19  
20 ment approved by the Supervisor and Commissioner, or unavoidably lost, shall 20  
21 be deemed to be produced equally on an acreage basis from the several tracts 21  
22 of unitized land of the participating area established for such production 22  
23 and, for the purpose of determining any benefits accruing under this agree- 23  
24 ment, each such tract of unitized land shall have allocated to it such per- 24  
25 centage of said production as the number of acres of such tract included in 25  
26 said participating area bears to the total acres of unitized land in said 26  
27 participating area, except that allocation of production hereunder for pur- 27  
28 poses other than for settlement of the royalty, overriding royalty, or pay- 28  
29 ment out of production obligations of the respective working interest owners, 29  
30 shall be on the basis prescribed in the unit operating agreement whether in 30  
31 conformity with the basis of allocation herein set forth or otherwise. It is 31  
32 hereby agreed that production of unitized substances from a participating area 32  
33 shall be allocated as provided herein regardless of whether any wells are 33  
34 drilled on any particular part or tract of said participating area. If any 34

1 gas produced from one participating area is used for repressuring or recycling 1  
2 purposes in another participating area, the first gas withdrawn from such 2  
3 last mentioned participating area for sale during the life of this agreement 3  
4 shall be considered to be the gas so transferred until an amount equal to that 4  
5 transferred shall be so produced for sale and such gas shall be allocated to 5  
6 the participating area from which initially produced as such area was last 6  
7 defined at the time of such final production. 7

8 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. 8

9 Any party hereto owning or controlling the working interest in any unitized 9  
10 land having thereon a regular well location may with the approval of the 10  
11 Supervisor as to Federal land, the Commissioner as to State land and the Com- 11  
12 mission as to privately owned land, at such party's sole risk, cost and ex- 12  
13 pense, drill a well to test any formation for which a participating area has 13  
14 not been established or to test any formation for which a participating area 14  
15 has been established if such location is not within said participating area, 15  
16 unless within 90 days of receipt of notice from said party of his intention 16  
17 to drill the well the Unit Operator elects and commences to drill such a well 17  
18 in like manner as other wells are drilled by the Unit Operator under this 18  
19 agreement. 19

20 If any well drilled as aforesaid by a working interest owner results 20  
21 in production such that the land upon which it is situated may properly be 21  
22 included in a participating area, such participating area shall be established 22  
23 or enlarged as provided in this agreement and the well shall thereafter be 23  
24 operated by the Unit Operator in accordance with the terms of this agreement 24  
25 and the unit operating agreement. 25

26 If any well drilled as aforesaid by a working interest owner obtains 26  
27 production in quantities insufficient to justify the inclusion of the land 27  
28 upon which such well is situated in a participating area, such well may be 28  
29 operated and produced by the party drilling the same subject to the conser- 29  
30 vation requirements of this agreement. The royalties in amount or value of 30  
31 production from any such well shall be paid as specified in the underlying 31  
32 lease and agreements affected. 32

33 14. ROYALTY SETTLEMENT. The United States and any State and any royalty 33  
34 owner who is entitled to take in kind a share of the substances now unitized 34

1 hereunder shall hereafter be entitled to the right to take in kind its share 1  
2 of the unitized substances, and the Unit Operator, or the working interest 2  
3 owner in case of the operation of a well by a working interest owner as here- 3  
4 in provided for in special cases, shall make deliveries of such royalty share 4  
5 taken in kind in conformity with the applicable contracts, laws and regula- 5  
6 tions. Settlement for royalty interest not taken in kind shall be made by 6  
7 working interest owners responsible therefor under existing contracts, laws 7  
8 and regulations, or by the Unit Operator, on or before the last day of each 8  
9 month for unitized substances produced during the preceding calendar month; 9  
10 provided, however, that nothing herein contained shall operate to relieve the 10  
11 lessees of any land from their respective lease obligations for the payment 11  
12 of any royalties due under their leases. 12

13 If gas obtained from lands not subject to this agreement is intro- 13  
14 duced into any participating area hereunder, for use in repressuring, stimu- 14  
15 lation of production, or increasing ultimate recovery, in conformity with a 15  
16 plan of operations approved by the Supervisor, the Commissioner, and Commis- 16  
17 sion, a like amount of gas, after settlement as herein provided for any gas 17  
18 transferred from any other participating area and with appropriate deduction 18  
19 for loss from any cause, may be withdrawn from the formation in which the 19  
20 gas is introduced, royalty free as to dry gas, but not as to any products 20  
21 which may be extracted therefrom; provided that such withdrawal shall be at 21  
22 such time as may be provided in the approved plan of operations or as may 22  
23 otherwise be consented to by the Supervisor, the Commissioner and Commission 23  
24 as conforming to good petroleum engineering practice; and provided further, 24  
25 that such right of withdrawal shall terminate on the termination of this unit 25  
26 agreement. 26

27 Royalty due the United States shall be computed as provided in the 27  
28 operating regulations and paid in value or delivered in kind as to all unit- 28  
29 ized substances on the basis of the amounts thereof allocated to unitized 29  
30 Federal land as provided herein at the rate specified in the respective 30  
31 Federal leases, or at such lower rate or rates as may be authorized by law 31  
32 or regulation; provided, that for leases on which the royalty rate depends on 32  
33 the average production per well, said average production shall be determined 33  
34 in accordance with the operating regulations as though each participating 34

1 area were a single consolidated lease. 1

2 Royalty due on account of State lands shall be computed and paid 2  
3 on the basis of all unitized substances allocated to such lands. 3

4 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases com- 4  
5 mitted hereto shall be paid by working interest owners responsible therefor 5  
6 under existing contracts, laws and regulations, provided that nothing herein 6  
7 contained shall operate to relieve the lessees of any land from their re- 7  
8 spective lease obligations for the payment of any rental or minimum royalty 8  
9 due under their leases. Rental or minimum royalty for lands of the United 9  
10 States subject to this agreement shall be paid at the rate specified in the 10  
11 respective leases from the United States unless such rental or minimum royalty 11  
12 is waived, suspended or reduced by law or by approval of the Secretary or his 12  
13 duly authorized representative. 13

14 Rentals on State of New Mexico lands subject to this agreement shall 14  
15 be paid at the rates specified in the respective leases. 15

16 With respect to any lease on non-Federal land containing provisions 16  
17 which would terminate such lease unless drilling operations are commenced 17  
18 upon the land covered thereby within the time therein specified or rentals are 18  
19 paid for the privilege of deferring such drilling operations, the rentals re- 19  
20 quired thereby shall, notwithstanding any other provisions of this agreement, 20  
21 be deemed to accrue and become payable during the term thereof as extended by 21  
22 this agreement and until the required drilling operations are commenced upon 22  
23 the land covered thereby or until some portion of such land is included with- 23  
24 in a participating area. 24

25 16. CONSERVATION. Operations hereunder and production of unitized sub- 25  
26 stances shall be conducted to provide for the most economical and efficient 26  
27 recovery of said substances without waste, as defined by or pursuant to State 27  
28 or Federal laws or regulations. 28

29 17. DRAINAGE. The Unit Operator shall take such measures as the Super- 29  
30 visor and Commissioner deem appropriate and adequate to prevent drainage of 30  
31 unitized substances from unitized land by wells on land not subject to this 31  
32 agreement. 32

33 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, 33  
34 and provisions of all leases, subleases and other contracts relating to ex- 34

1 ploration, drilling, development or operations for oil or gas on lands com- 1  
2 mitted to this agreement are hereby expressly modified and amended to the ex- 2  
3 tent necessary to make the same conform to the provisions hereof, but other- 3  
4 wise to remain in full force and effect; and the parties hereto hereby con- 4  
5 sent that the Secretary as to Federal leases and the Commissioner as to State 5  
6 leases shall and each by his approval hereof, or by the approval hereof by 6  
7 their duly authorized representatives, do hereby establish, alter, change or 7  
8 revoke the drilling, producing, rental, minimum royalty and royalty require- 8  
9 ments of Federal and State leases committed hereto and the regulations in re- 9  
10 spect thereto to conform said requirements to the provisions of this agree- 10  
11 ment, and, without limiting the generality of the foregoing, all leases, sub- 11  
12 leases, and contracts are particularly modified in accordance with the fol- 12  
13 lowing: 13  
14 (a) The development and operation of lands subject to this agree- 14  
15 ment under the terms hereof shall be deemed full performance of all 15  
16 obligations for development and operation with respect to each and 16  
17 every separately owned tract subject to this agreement, regardless 17  
18 of whether there is any development of any particular tract of the 18  
19 unit area. 19  
20 (b) Drilling and producing operations performed hereunder upon 20  
21 any tract of unitized land will be accepted and deemed to be per- 21  
22 formed upon and for the benefit of each and every tract of unitized 22  
23 land, and no lease shall be deemed to expire by reason of failure 23  
24 to drill or produce wells situated on the land therein embraced. 24  
25 (c) Suspension of drilling or producing operations on all unitized 25  
26 lands pursuant to direction or consent of the Secretary and Commis- 26  
27 sioner or their duly authorized representatives shall be deemed to 27  
28 constitute such suspension pursuant to such direction or consent 28  
29 as to each and every tract of unitized land. A suspension of drill- 29  
30 ing or producing operations limited to specified lands shall be ap- 30  
31 plicable only to such lands. 31  
32 (d) Each lease, sublease or contract relating to the exploration, 32  
33 drilling, development or operation for oil or gas of lands other 33  
34 than those of the United States or State of New Mexico committed 34

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

5 (e) Any Federal lease for a fixed term of twenty (20) years or any 5  
6 renewal thereof or any part of such lease which is made subject to 6  
7 this agreement shall continue in force beyond the term provided 7  
8 therein until the termination hereof. Any other Federal lease com- 8  
9 mitted hereto shall continue in force beyond the term so provided 9  
10 therein or by law as to the land committed so long as such lease re- 10  
11 mains subject hereto, provided that production is had in paying 11  
12 quantities under this unit agreement prior to the expiration date 12  
13 of the term of such lease, or in the event actual drilling opera- 13  
14 tions are commenced on unitized lands, in accordance with the pro- 14  
15 visions of this agreement, prior to the end of the primary term of 15  
16 such lease and are being diligently prosecuted at that time, such 16  
17 lease shall be extended for two years and so long thereafter as oil 17  
18 or gas is produced in paying quantities in accordance with the pro- 18  
19 visions of the Mineral Leasing Act Revision of 1960. 19

20 (f) Each sublease or contract relating to the operation and devel- 20  
21 opment of unitized substances from lands off the United States com- 21  
22 mitted to this agreement, which by its terms would expire prior to 22  
23 the time at which the underlying lease, as extended by the immedi- 23  
24 ately preceding paragraph, will expire, is hereby extended beyond 24  
25 any such term so provided therein so that it shall be continued in 25  
26 full force and effect for and during the term of the underlying 26  
27 lease as such term is herein extended. 27

28 (g) Any lease embracing lands of the State of New Mexico which is 28  
29 made subject to this agreement, shall continue in force beyond the 29  
30 term provided therein as to the lands committed hereto until the 30  
31 termination hereof, subject to the provisions of subsection (c) of 31  
32 Section 2 and subsection (i) of this Section 18. 32

33 (h) The segregation of any Federal lease committed to this agree- 33  
34 ment is governed by the following provisions in the fourth paragraph 34

1 of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of 1  
2 September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease hereto- 2  
3 fore or hereafter committed to any such (unit) plan embracing lands 3  
4 that are in part within and in part outside of the area covered by 4  
5 any such plan shall be segregated into separate leases as to the 5  
6 lands committed and the lands not committed as of the effective date 6  
7 of unitization: Provided, however, That any such lease as to the 7  
8 nonunitized portion shall continue in force and effect for the term 8  
9 thereof but for not less than two years from the date of such seg- 9  
10regation and so long thereafter as oil or gas is produced in paying 10  
11 quantities." 11

12 (i) Any lease embracing lands of the State of New Mexico having 12  
13 only a portion of its lands committed hereto, shall be segregated 13  
14 as to the portion committed and the portion not committed, and the 14  
15 provisions of such lease shall apply separately to such segregated 15  
16 portions commencing as of the effective date hereof; provided, how- 16  
17ever, notwithstanding any of the provisions of this agreement to the 17  
18contrary, any lease embracing lands of the State of New Mexico hav- 18  
19ing only a portion of its lands committed hereto shall continue in 19  
20full force and effect beyond the term provided therein as to all 20  
21lands embraced in such lease, if oil or gas is discovered and is 21  
22capable of being produced in paying quantities from some part of 22  
23the lands embraced in such lease at the expiration of the secondary 23  
24term of such lease; or if, at the expiration of the secondary term, 24  
25the lessee or Unit Operator is then engaged in bona fide drilling 25  
26or reworking operations on some part of the lands embraced in such 26  
27lease, the same, as to all lands embraced therein, shall remain in 27  
28full force and effect so long as such operations are being diligent- 28  
29ly prosecuted, and if they result in the production of oil or gas, 29  
30said lease shall continue in full force and effect as to all of the 30  
31lands embraced therein, so long thereafter as oil or gas in paying 31  
32quantities is being produced from any portion of said lands. 32

33 (j) Any lease, other than a Federal lease, having only a portion of 33  
34 its lands committed hereto shall be segregated as to the portion 34

1 committed and the portion not committed, and the provisions of such 1  
2 lease shall apply separately to such segregated portions commencing 2  
3 as of the effective date hereof. In the event any such lease pro- 3  
4 vides for a lump sum rental payment, such payment shall be prorated 4  
5 between the portions so segregated in proportion to the acreage of 5  
6 the respective tracts. 6

7 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed 7  
8 to be covenants running with the land with respect to the interest of the 8  
9 parties hereto and their successors in interest until this agreement termi- 9  
10 nates, and any grant, transfer, or conveyance of interest in land or leases 10  
11 subject hereto shall be and hereby is conditioned upon the assumption of all 11  
12 privileges and obligations hereunder by the grantee, transferee or other suc- 12  
13 cessor in interest. No assignment or transfer of any working interest, roy- 13  
14 alty, or other interest subject hereto shall be binding upon Unit Operator 14  
15 until the first day of the calendar month after Unit Operator is furnished 15  
16 with the original, photostatic, or certified copy of the instrument of trans- 16  
17 fer. 17

18 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon 18  
19 approval by the Secretary and Commissioner, or their duly authorized repre- 19  
20 sentatives and shall terminate five (5) years from said effective date unless: 20

21 (a) such date of expiration is extended by the Director and Commis- 21  
22 sioner, or 22

23 (b) it is reasonably determined prior to the expiration of the fixed 23  
24 term or any extension thereof that the unitized land is incapable of 24  
25 production of unitized substances in paying quantities in the forma- 25  
26 tions tested hereunder and after notice of intention to terminate 26  
27 the agreement on such ground is given by the Unit Operator to all 27  
28 parties in interest at their last known addresses, the agreement is 28  
29 terminated with the approval of the Supervisor and the Commissioner, 29  
30 or 30

31 (c) a valuable discovery of unitized substances has been made or 31  
32 accepted on unitized land during said initial term or any extension 32  
33 thereof, in which event the agreement shall remain in effect for such 33  
34 term and so long as unitized substances can be produced in quantities 34

1 sufficient to pay for the cost of producing same from wells on unit- 1  
2 ized land within any participating area established hereunder and, 2  
3 should production cease, so long thereafter as diligent operations 3  
4 are in progress for the restoration of production or discovery of 4  
5 new production and so long thereafter as unitized substances so dis- 5  
6 covered can be produced as aforesaid, or 6

7 (d) it is terminated as heretofore provided in this agreement. 7

8 This agreement may be terminated at any time by not less than 75 per centum, 8  
9 on an acreage basis, of the working interest owners signatory hereto, with 9  
10 the approval of the Supervisor and Commissioner; notice of any such approval 10  
11 to be given by the Unit Operator to all parties hereto. 11

12 21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The Director is 12  
13 hereby vested with authority to alter or modify from time to time in his dis- 13  
14 cretion the quantity and rate of production under this agreement when such 14  
15 quantity and rate is not fixed pursuant to Federal or State law or does not 15  
16 conform to any statewide voluntary conservation or allocation program, which 16  
17 is established, recognized and generally adhered to by the majority of opera- 17  
18 tors in such State, such authority being hereby limited to alteration or modi- 18  
19 fication in the public interest, the purpose thereof and the public interest 19  
20 to be served thereby to be stated in the order of alteration or modification. 20  
21 Without regard to the foregoing, the Director is also hereby vested with 21  
22 authority to alter or modify from time to time in his discretion the rate of 22  
23 prospecting and development and the quantity and rate of production under 23  
24 this agreement when such alteration or modification is in the interest of at- 24  
25 taining the conservation objectives stated in this agreement and is not in 25  
26 violation of any applicable Federal or State law; provided, further, that no 26  
27 such alteration or modification shall be effective as to any land of the State 27  
28 of New Mexico, as to the rate of prospecting and developing in the absence of 28  
29 the specific written approval thereof by the Commissioner and as to any lands 29  
30 of the State of New Mexico or privately owned lands subject to this agreement 30  
31 as to the quantity and rate of production in the absence of specific written 31  
32 approval thereof by the Commission. 32

33 Powers in this section vested in the Director shall only be exer- 33  
34 cised after notice to Unit Operator and opportunity for hearing to be held 34

1 not less than 15 days from notice. 1

2 22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working 2  
3 interest owners nor any of them shall be subject to any forfeiture, termina- 3  
4 tion or expiration of any rights hereunder or under any leases or contracts 4  
5 subject hereto, or to any penalty or liability on account of delay or failure 5  
6 in whole or in part to comply with any applicable provision thereof to the 6  
7 extent that the Unit Operator, working interest owners or any of them are hin- 7  
8 dered, delayed or prevented from complying therewith by reason of failure of 8  
9 the Unit Operator to obtain in the exercise of due diligence, the concurrence 9  
10 of proper representatives of the United States and proper representatives of 10  
11 the State of New Mexico in and about any matters or things concerning which it 11  
12 is required herein that such concurrence be obtained. The parties hereto, in- 12  
13 cluding the Commission, agree that all powers and authority vested in the Com- 13  
14 mission in and by any provisions of this agreement are vested in the Commis- 14  
15 sion and shall be exercised by it pursuant to the provisions of the laws of 15  
16 the State of New Mexico and subject in any case to appeal or judicial review 16  
17 as may now or hereafter be provided by the laws of the State of New Mexico. 17

18 23. APPEARANCES. Unit Operator shall, after notice to other parties af- 18  
19 fected, have the right to appear for and on behalf of any and all interests 19  
20 affected hereby before the Department of the Interior, the Commissioner of 20  
21 Public Lands of the State of New Mexico and the New Mexico Oil Conservation 21  
22 Commission and to appeal from orders issued under the regulations of said 22  
23 Department, the Commission or Commissioner or to apply for relief from any of 23  
24 said regulations or in any proceedings relative to operations before the De- 24  
25 partment of the Interior, the Commissioner, or Commission, or any other legal- 25  
26 ly constituted authority; provided, however, that any other interested party 26  
27 shall also have the right at his own expense to be heard in any such proceed- 27  
28 ing. 28

29 24. NOTICES. All notices, demands or statements required hereunder to 29  
30 be given or rendered to the parties hereto shall be deemed fully given if 30  
31 given in writing and personally delivered to the party or sent by postpaid 31  
32 registered or certified mail, addressed to such party or parties at their 32  
33 respective addresses set forth in connection with the signatures hereto or 33  
34 to the ratification or consent hereof or to such other address as any such 34

1 party may have furnished in writing to party sending the notice, demand or 1  
2 statement. 2

3 25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained 3  
4 shall be construed as a waiver by any party hereto of the right to assert 4  
5 any legal or constitutional right or defense as to the validity or invalidity 5  
6 of any law of the State wherein said unitized lands are located, or of the 6  
7 United States, or regulations issued thereunder in any way affecting such par- 7  
8 ty, or as a waiver by any such party of any right beyond his or its authority 8  
9 to waive. 9

10 26. UNAVOIDABLE DELAY. All obligations under this agreement requiring 10  
11 the Unit Operator to commence or continue drilling or to operate on or pro- 11  
12 duce unitized substances from any of the lands covered by this agreement 12  
13 shall be suspended while the Unit Operator, despite the exercise of due care 13  
14 and diligence, is prevented from complying with such obligations, in whole or 14  
15 in part, by strikes, acts of God, Federal, State or municipal law or agencies, 15  
16 unavoidable accidents, uncontrollable delays in transportation, inability to 16  
17 obtain necessary materials in open market, or other matters beyond the rea- 17  
18 sonable control of the Unit Operator whether similar to matters herein enu- 18  
19 merated or not. No unit obligation which is suspended under this section 19  
20 shall become due less than thirty (30) days after it has been determined that 20  
21 the suspension is no longer applicable. Determination of creditable "Unavoid- 21  
22 able Delay" time shall be made by the Unit Operator subject to approval of the 22  
23 Supervisor and Commissioner. 23

24 27. NONDISCRIMINATION. In connection with the performance of work under 24  
25 this agreement, the Unit Operator agrees to comply with all of the provisions 25  
26 of section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), 26  
27 which are hereby incorporated by reference in this agreement. 27

28 28. LOSS OF TITLE. In the event title to any tract of unitized land 28  
29 shall fail and the true owner cannot be induced to join in this unit agree- 29  
30 ment, such tract shall be automatically regarded as not committed hereto and 30  
31 there shall be such readjustment of future costs and benefits as may be re- 31  
32 quired on account of the loss of such title. In the event of a dispute as 32  
33 to title to any royalty, working interest or other interests subject thereto, 33  
34 payment or delivery on account thereof may be withheld without liability for 34

1 interest until the dispute is finally settled; provided, that, as to Federal 1  
2 and State land or leases, no payments of funds due the United States or State 2  
3 of New Mexico should be withheld, but such funds of the United States shall 3  
4 be deposited as directed by the Supervisor and such funds of the State of New 4  
5 Mexico shall be deposited as directed by the Commissioner to be held as un- 5  
6 earned money pending final settlement of the title dispute, and then applied 6  
7 as earned or returned in accordance with such final settlement. 7

8 Unit Operator as such is relieved from any responsibility for any 8  
9 defect or failure of any title hereunder. 9

10 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial 10  
11 interest in a tract within the unit area fails or refuses to subscribe or con- 11  
12 sent to this agreement, the owner of the working interest in that tract may 12  
13 withdraw said tract from this agreement by written notice delivered to the 13  
14 Supervisor and the Commissioner and the Unit Operator prior to the approval 14  
15 of this agreement by the Supervisor and Commissioner. Any oil or gas inter- 15  
16 ests in lands within the unit area not committed hereto prior to submission 16  
17 of this agreement for final approval may thereafter be committed hereto by 17  
18 the owner or owners thereof subscribing or consenting to this agreement, and, 18  
19 if the interest is a working interest, by the owner of such interest also sub- 19  
20 scribing to the unit operating agreement. After operations are commenced 20  
21 hereunder, the right of subsequent joinder, as provided in this section, by 21  
22 a working interest owner is subject to such requirements or approvals, if 22  
23 any, pertaining to such joinder, as may be provided for in the unit operating 23  
24 agreement. After final approval hereof, joinder by a non-working interest 24  
25 owner must be consented to in writing by the working interest owner committed 25  
26 hereto and responsible for the payment of any benefits that may accrue here- 26  
27 under in behalf of such non-working interest. A non-working interest may not 27  
28 be committed to this unit agreement unless the corresponding working interest 28  
29 is committed hereto. Joinder to the unit agreement by a working interest 29  
30 owner, at any time, must be accompanied by appropriate joinder to the unit 30  
31 operating agreement, if more than one committed working interest owner is in- 31  
32 volved, in order for the interest to be regarded as committed to this unit 32  
33 agreement. Except as may otherwise herein be provided, subsequent joinders 33  
34 to this agreement shall be effective as of the first day of the month follow- 34

1 ing the filing with the Supervisor and the Commissioner of duly executed 1  
2 counterparts of all or any papers necessary to establish effective commitment 2  
3 of any tract to this agreement unless objection to such joinder is duly made 3  
4 within 60 days by the Supervisor, provided, however, that as to State lands 4  
5 all subsequent joinders must be approved by the Commissioner. 5

6 30. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this 6  
7 agreement shall modify any special Federal-lease stipulations relating to 7  
8 surface and environmental protection, attached to and made a part of Oil and 8  
9 Gas Leases covering lands within the Unit Area. 9

10 31. SURFACE MANAGEMENT STIPULATION. Nothing in this agreement shall 10  
11 modify any special Federal-lease stipulations relating to surface management, 11  
12 attached to and made a part of Oil and Gas Leases covering lands within the 12  
13 Unit Area. 13

14 32. COUNTERPARTS. This agreement may be executed in any number of 14  
15 counterparts no one of which needs to be executed by all parties or may be 15  
16 ratified or consented to by separate instrument in writing specifically re- 16  
17 ferring hereto and shall be binding upon all those parties who have executed 17  
18 such a counterpart, ratification, or consent hereto with the same force and 18  
19 effect as if all such parties had signed the same document and regardless of 19  
20 whether or not it is executed by all other parties owning or claiming an in- 20  
21 terest in the lands within the above described unit area. 21

22 33. SURRENDER. Nothing in this agreement shall prohibit the exercise 22  
23 by any working interest owner of the right to surrender vested in such party 23  
24 by any lease, sublease, or operating agreement as to all or any part of the 24  
25 lands covered thereby, provided that each party who will or might acquire 25  
26 such working interest by such surrender or by forfeiture as hereafter set 26  
27 forth, is bound by the terms of this agreement. 27

28 If as a result of any such surrender the working interest rights as 28  
29 to such lands become vested in any party other than the fee owner of the 29  
30 unitized substances, said party may forfeit such rights and further benefits 30  
31 from operation hereunder as to said land to the party next in the chain of 31  
32 title who shall be and become the owner of such working interest. 32

33 If as the result of any such surrender or forfeiture working interest 33  
34 rights become vested in the fee owner of the unitized substances, such owner 34

1 may:

- 2 (1) Accept those working interest rights subject to this agreement 2  
3 and the unit operating agreement; or 3  
4 (2) Lease the portion of such land as is included in a participating 4  
5 area established hereunder subject to this agreement and the unit 5  
6 operating agreement; or 6  
7 (3) Provide for the independent operation of any part of such land 7  
8 that are not then included within a participating area established 8  
9 hereunder. 9

10 If the fee owner of the unitized substances does not accept the 10  
11 working interest rights subject to this agreement and the unit operating 11  
12 agreement or lease such lands as above provided within six (6) months after 12  
13 the surrendered or forfeited working interest rights become vested in the fee 13  
14 owner, the benefits and obligations of operations accruing to such lands un- 14  
15 der this agreement and the unit operating agreement shall be shared by the 15  
16 remaining owners of unitized working interests in accordance with their re- 16  
17 spective working interest ownerships, and such owners of working interests 17  
18 shall compensate the fee owner of unitized substances in such lands by pay- 18  
19 ing sums equal to the rentals, minimum royalties, and royalties applicable 19  
20 to such lands under the lease in effect when the lands were unitized. 20

21 An appropriate accounting and settlement shall be made for all bene- 21  
22 fits accruing to or payments and expenditures made or incurred on behalf of 22  
23 such surrendered or forfeited working interest subsequent to the date of 23  
24 surrender or forfeiture, and payment of any moneys found to be owing by such 24  
25 an accounting shall be made as between the parties within thirty (30) days. 25  
26 In the event no unit operating agreement is in existence and a mutually ac- 26  
27 ceptable agreement between the proper parties thereto cannot be consummated, 27  
28 the Supervisor may prescribe such reasonable and equitable agreement as he 28  
29 deems warranted under the circumstances. 29

30 The exercise of any right vested in a working interest owner to re- 30  
31 assign such working interest to the party from whom obtained shall be subject 31  
32 to the same conditions as set forth in this section in regard to the exer- 32  
33 cise of a right to surrender. 33

34 34. TAXES. The working interest owners shall render and pay for their 34

1 account and the account of the royalty owners all valid taxes on or measured 1  
2 by the unitized substances in and under or that may be produced, gathered 2  
3 and sold from the land subject to this contract after the effective date of 3  
4 this agreement, or upon the proceeds or net proceeds derived therefrom. The 4  
5 working interest owners on each tract shall and may charge the proper pro- 5  
6 portion of said taxes to the royalty owners having interests in said tract, 6  
7 and may currently retain and deduct sufficient of the unitized substances or 7  
8 derivative products, or net proceeds thereof from the allocated share of each 8  
9 royalty owner to secure reimbursement for the taxes so paid. No such taxes 9  
10 shall be charged to the United States or the State of New Mexico or to any 10  
11 lessor who has a contract with his lessee which requires the lessee to pay 11  
12 such taxes. 12

13 35. NO PARTNERSHIP. It is expressly agreed that the relation of the 13  
14 parties hereto is that of independent contractors and nothing in this agree- 14  
15 ment contained, expressed or implied, nor any operations conducted hereunder, 15  
16 shall create or be deemed to have created a partnership or association be- 16  
17 tween the parties hereto or any of them. 17

18 IN WITNESS WHEREOF, the parties hereto have caused this agreement 18  
19 to be executed and have set opposite their respective names the date of exe- 19  
20 cution. 20

CITIES SERVICE OIL COMPANY

By \_\_\_\_\_  
Attorney-in-Fact

\_\_\_\_\_  
(Date)

Address: P. O. Box 300  
Tulsa, Oklahoma 74102

UNIT OPERATOR

S. P. YATES  
Yates Building  
Artesia, New Mexico 88210

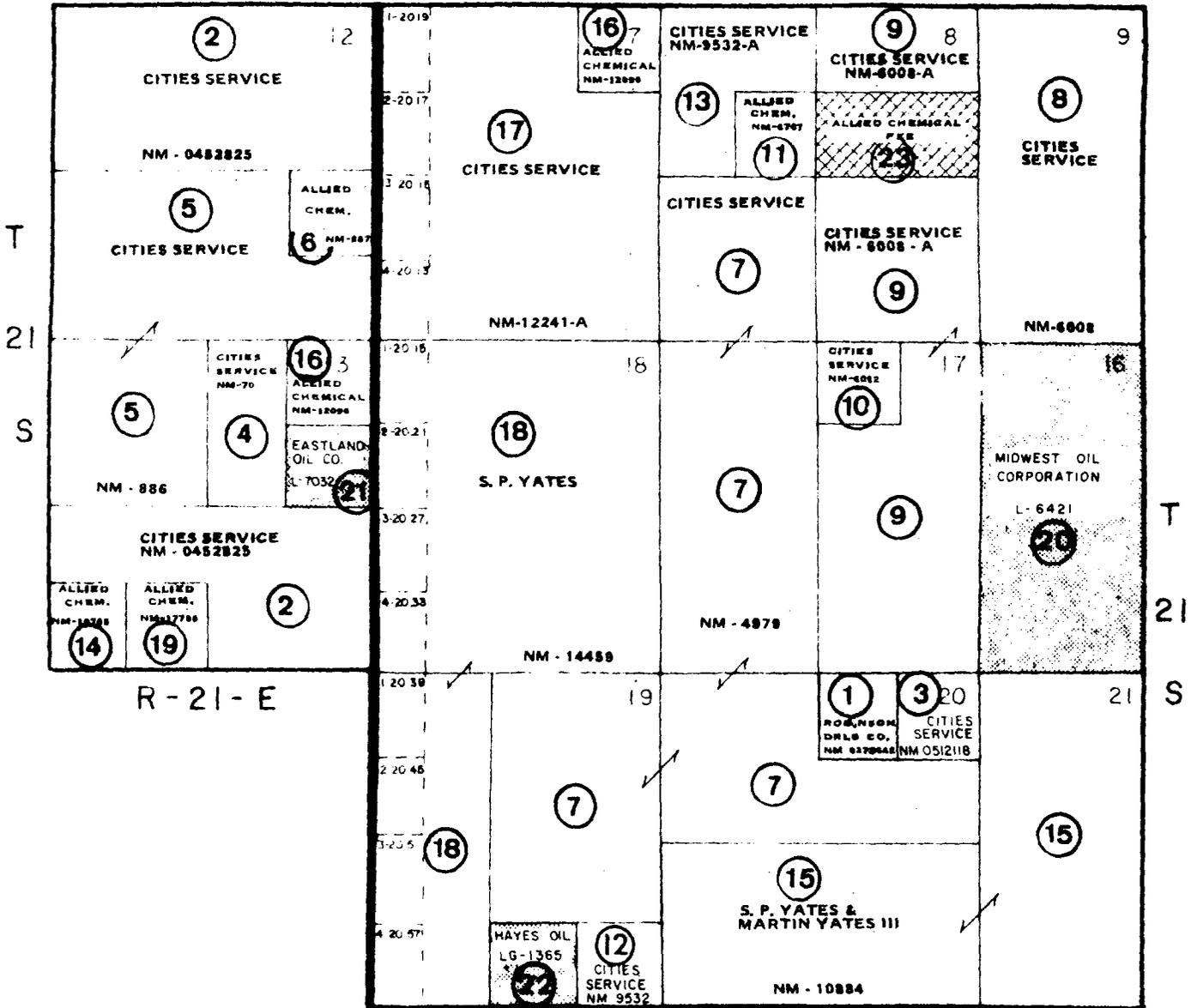
MARTIN YATES, III  
Yates Building  
Artesia, New Mexico 88210

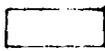
MIDWEST OIL CORPORATION  
1500 Wilco Building  
Midland, Texas 79701



R - 21 - E

R - 22 - E



	Federal Land	5,363.52 Ac - 91.7858 %
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	Fee Land	80.00 Ac - 1.3690 %
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	State Land	400.00 Ac - 6.8452 %
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Total 5,843.52 Ac - 100.0000 %

### EXHIBIT "A"

### LOAFER DRAW UNIT

Eddy County, New Mexico

SCALE: 2" = 1 Mile

EXHIBIT B  
Loafer Draw Unit Area  
T-21-S, R-21 & 22-E  
Eddy County, New Mexico

Tract No.	Description of Land	Number of Acres	Lease		Basic Royalty %	Lessee of Record	Int.	Overriding Royalty Owner and %		WI Owner and %	
			Serial No.,	Exp. Date							
1.	T-21-S, R-22-E Section 20: NW/4 NE/4	40.00	NM-0372642	11/11/74	USA	12.5%	Robinson Drilling Company of Texas, Inc.	100%	None	Robinson Drilling Company of Texas, Inc.	10%
2.	T-21-S, R-21-E Section 12: N/2 Section 13: SE/4, N/2 SW/4	560.00	NM-0452825	11/30/73	USA	12.5%	Cities Service Oil Company	100%	O. Thorn and P. Ijams - M. J. Harvey, Jr. -	Cities Service Oil Company	1% 1%
3.	T-21-S, R-22-E Section 20: NE/4 NE/4	40.00	NM-0512118	2/28/74	USA	12.5%	Cities Service Oil Company*	100%	Illabelle Shanahan -	Cities Service Oil Company*	3%
4.	T-21-S, R-21-E Section 13: W/2 NE/4	80.00	NM-70	7/31/76	USA	12.5%	Cities Service Oil Company	100%	Edmund B. MacDonald, et ux -	Cities Service Oil Company	3%
5.	T-21-S, R-21-E Section 12: SW/4, W/2 SE/4, SE/4 SE/4 Section 13: NW/4	440.00	NM-886	11/30/76	USA	12.5%	Cities Service Oil Company	100%	W. R. Goddard, et ux -	Cities Service Oil Company	3%
6.	T-21-S, R-21-E Section 12: NE/4 SE/4	40.00	NM-887	11/30/76	USA	12.5%	Allied Chemical Corporation	100%	Jack J. Grynberg - Melvin Unterman -	Allied Chemical Corporation	3.125% 3.125%
7.	T-21-S, R-22-E Section 8: SW/4 Section 17: W/2 Section 19: NE/4, N/2 SE/4 Section 20: NW/4, S/2 NE/4	960.00	NM-4979	3/31/78	USA	12.5%	Cities Service Oil Company	100%	A. G. Andrikopoulos - John G. Andrikopoulos, et ux -	Cities Service Oil Company	2½% ½ of 1%

\*This Assignment was filed for approval with the Bureau of Land Management in Santa Fe on November 13, 1973.

Tract No.	Description of Land	Number of Acres	Lease		Basic Royalty %	Lessee of Record	Int.	Overriding Royalty Owner and %		WI Owner and %		
			Serial No.,	Exp. Date				Owner				
8.	T-21-S, R-22-E Section 9: W/2	320.00	NM-6008	5/31/78	USA	12.5%	Cities Service Oil Company	100%	William L. McCullough, et ux - Ray C. Van Tassell -	1% 2%	Cities Service Oil Company	100%
9.	T-21-S, R-22-E Section 8: N/2 NE/4, SE/4 Section 17: E/2 NE/4, SW/4 NE/4, SE/4	520.00	NM-6008-A	5/31/78	USA	12.5%	Cities Service Oil Company	100%	William L. McCullough, et ux - Ray C. Van Tassell, Sr. -	3% 2%	Cities Service Oil Company	100%
10.	T-21-S, R-22-E Section 17: NW/4 NE/4	40.00	NM-6012	5/31/78	USA	12.5%	Cities Service Oil Company	100%	Aage Madsen, et ux -	3%	Cities Service Oil Company	100%
11.	T-21-S, R-22-E Section 8: SE/4 NW/4	40.00	NM-6707	6/31/78	USA	12.5%	Allied Chemical Corporation	100%	Marion K. Gray -	6.25%	Allied Chemical Corporation	100%
12.	T-21-S, R-22-E Section 19: SE/4 SE/4	40.00	NM-9532	5/31/79	USA	12.5%	Cities Service Oil Company*	100%	Jack L. McClellan -	5%	Cities Service Oil Company*	100%
13.	T-21-S, R-22-E Section 8: W/2 NW/4, NE/4 NW/4	120.00	NM-9532-A	5/31/79	USA	12.5%	Cities Service Oil Company	100%	Jack L. McClellan, et ux -	5%	Cities Service Oil Company	100%
14.	T-21-S, R-21-E Section 13: SW/4 SW/4	40.00	NM-10765	11/30/79	USA	12.5%	Allied Chemical Corporation	100%	Celeste C. Grynberg -	6.25%	Allied Chemical Corporation	100%
15.	T-21S, R-22-E Section 20: S/2 Section 21: W/2	640.00	NM-10884	12/31/79	USA	12.5%	Martin Yates, III S. P. Yates	50% 50%	Charles R. Wilcox, et ux -	3%	Martin Yates, III S. P. Yates	50% 50%
16.	T-21-S, R-21-E Section 13: NE/4 NE/4; T-21-S, R-22-E Section 7: NE/4 NE/4	80.00	NM-12096	7/31/80	USA	12.5%	Allied Chemical Corporation	100%	F. J. Bradshaw, et ux -	5%	Allied Chemical Corporation	100%

\*This Assignment was filed for approval with the Bureau of Land Management in Santa Fe on November 16, 1973.

Tract No.	Description of Land	Number of Acres	Lease Serial No., Exp. Date	Basic Royalty Owner	Lessee of Record	Int.	Overriding Royalty Owner and %	WI Owner and %
17.	T-21-S, R-22-E Section 7: Lots 1, 2, 3, 4, E/2 W/2, W/2 E/2, SE/4 NE/4, E/2 SE/4	520.64	NM-12241-A 8/31/80	USA	Cities Service Oil Company	100%	Ambrose N. Ciano, et ux - 3%	Cities Service Oil Company 100%
18.	T-21-S, R-22-E Section 18: Lots 1, 2, 3, 4, E/2 W/2, E/2 Section 19: Lots 1, 2, 3, 4, E/2 W/2	802.88	NM-14459 11/30/81	USA	S. P. Yates	100%	None	S. P. Yates 100%
19.	T-21-S, R-21-E Section 13: SE/4 SW/4	40.00	NM-17788 2/28/83	USA	Allied Chemical Corporation	100%	Ralph Gray - 6.25%	Allied Chemical Corporation 100%
TOTAL FEDERAL LANDS		5,363.52	( 91.7858%)					
20.	T-21-S, R-22-E Section 16: W/2	320.00	L-6421 7/31/81	State	Midwest Oil Corporation	100%	None	Midwest Oil Corporation 100%
21.	T-21-S, R-21-E Section 13: SE/4 NE/4	40.00	L-7032 1/31/82	State	The Eastland Oil Company	100%	None	The Eastland Oil Company 100%
22.	T-21-S, R-22-E Section 19: SW/4 SE/4	40.00	LG-1365 10/1/83	State	Hayes Oil Company	100%	None	Hayes Oil Company 100%
TOTAL STATE LANDS		400.00	( 6.8452%)					
23.	T-21-S, R-22-E Section 8: S/2 NE/4	80.00	Fee 10/11/79	Ralph A. Vandewart, III	Allied Chemical Corporation	100%	David J. Sorenson, et ux - 6.25%	Allied Chemical Corporation 100%
TOTAL PATENTED LANDS		80.00	( 1.3690%)					
TOTAL LANDS		5,843.52	(100.0000%)					







STATE OF NEW MEXICO )  
 ) SS  
COUNTY OF EDDY )

On this 23rd day of October, 1973, before me personally appeared S. P. YATES, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

*Edwin L. Richardson*  
Notary Public

My Commission Expires:

*November 30, 1975*



STATE OF NEW MEXICO )  
 ) SS  
COUNTY OF EDDY )

On this 19th day of October, 1973, before me personally appeared MARTIN YATES III, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

*William L. Schauder*  
Notary Public

My Commission Expires:

*November 30, 1975*









CONSENT AND RATIFICATION  
LOAFER DRAW UNIT AGREEMENT  
EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Loafer Draw Unit Area dated October 15, 1973, embracing lands situated in Eddy County, New Mexico, and acknowledge that they have read the same and are familiar with the terms and conditions thereof.

The undersigned also being the owners of the working interest, leasehold, royalty or other interest in the lands or minerals embraced in said unit area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B," do hereby consent to and ratify all of the terms and provisions of the said Unit Agreement, exactly the same as if the undersigned had executed the original of the said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

**MINERALS OIL COMPANY**

P. O. Box 1377  
Address: Midland, T. 79701

[Signature]  
**Managing Partner**

STATE OF TEXAS )  
COUNTY OF MIDLAND ) SS

On this 1st day of October, 1973, before me personally appeared [Name], to me known to be the Managing Partner who executed the foregoing instrument as Managing Partner, a [Company Name] corporation. [Name] acknowledged that he executed the same as the free act and deed of said [Company Name].

[Signature]  
Notary Public

My Commission Expires:  
June 1, 1975

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

On this the \_\_\_\_\_ day of \_\_\_\_\_, 1973, personally appeared \_\_\_\_\_, to me personally known, who being by me duly sworn did say that he is the \_\_\_\_\_ President of \_\_\_\_\_, and that the seal affixed to the foregoing 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 said \_\_\_\_\_ acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

\_\_\_\_\_  
Notary Public

My Commission Expires:

Tract No. 25

