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April 24, 2001

*Case 12658*

**Hand Delivered**

Florene Davidson  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed are an original and one copy of an application for unit expansion, and a proposed advertisement, filed on behalf of Cross Timbers Oil Company. Please set this matter for the May 17, 2001 Examiner hearing. Thank you.

The application and advertisement are also on the enclosed disk under "CTOC."

This is a voluntary unit, previously approved by the Division. If possible, applicant requests that the matter be set for hearing such that "in the absence of objection, this matter will be taken under advisement."

Very truly yours,



James Bruce

Attorney for Cross Timbers Oil Company

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF CROSS TIMBERS OIL  
COMPANY FOR UNIT EXPANSION, LEA  
COUNTY, NEW MEXICO.

No. 12658

APPLICATION

Cross Timbers Oil Company, for its application, states:

1. Applicant is the sole working interest owner in the Southeast Maljamar Grayburg-San Andres Unit ("the Unit"), approved by Division Order No. R-3130, as amended, which unitized the state and federal lands described below, located in Lea County, New Mexico:

TOWNSHIP 17 SOUTH, RANGE 33 EAST, N.M.P.M.

Section 29:  $W\frac{1}{2}NE\frac{1}{4}$ ,  $SE\frac{1}{4}NE\frac{1}{4}$ ,  $NW\frac{1}{4}$ , and  $S\frac{1}{2}$   
Section 30:  $NE\frac{1}{4}$ ,  $N\frac{1}{2}SE\frac{1}{4}$ , and  $SE\frac{1}{4}SE\frac{1}{4}$   
Section 32:  $N\frac{1}{2}N\frac{1}{2}$ ,  $SE\frac{1}{4}NE\frac{1}{4}$ , and  $N\frac{1}{2}SE\frac{1}{4}$   
Section 33:  $NW\frac{1}{4}NW\frac{1}{4}$  and  $N\frac{1}{2}SW\frac{1}{4}$

Containing 1280 acres, more or less.

The Unit is operated by Cross Timbers Operating Company.

2. Applicant requests that the Unit be expanded to include the following state land:

TOWNSHIP 17 SOUTH, RANGE 33 EAST, N.M.P.M.

Section 30:  $SW\frac{1}{4}SE\frac{1}{4}$

Containing 40 acres, more or less.

A map of the proposed expanded unit area, containing 1320 acres, is attached hereto as Exhibit A.

3. The Unit is subject to a waterflood project, authorized by Division Order No. R-3134, as amended, which authorized a waterflood project within the Unit in the Maljamar Grayburg-San Andres Pool.

4. The plan of unitization for the expanded unit area is embodied in the Unit Agreement approved by the Division by Order No. R-3130, which agreement is incorporated herein by reference, and the plan is fair, reasonable, and equitable.

5. The unitized management, operation, and further development of the Maljamar Grayburg-San Andres Pool underlying the expanded unit area is reasonably necessary in order to effectively carry on waterflood operations.

6. The Bureau of Land Management and the Commissioner of Public Lands have granted preliminary approval of unit expansion.

7. The granting of this application is in the interests of conservation, the prevention of waste, and the protection of correlative rights.

**WHEREFORE**, applicant requests that the Division enter its order:

- A. Approving the expansion of the Unit to include the lands described in paragraph 2 above; and
- B. Approving the Unit Agreement, as amended, for the expanded unit area.

Respectfully submitted,

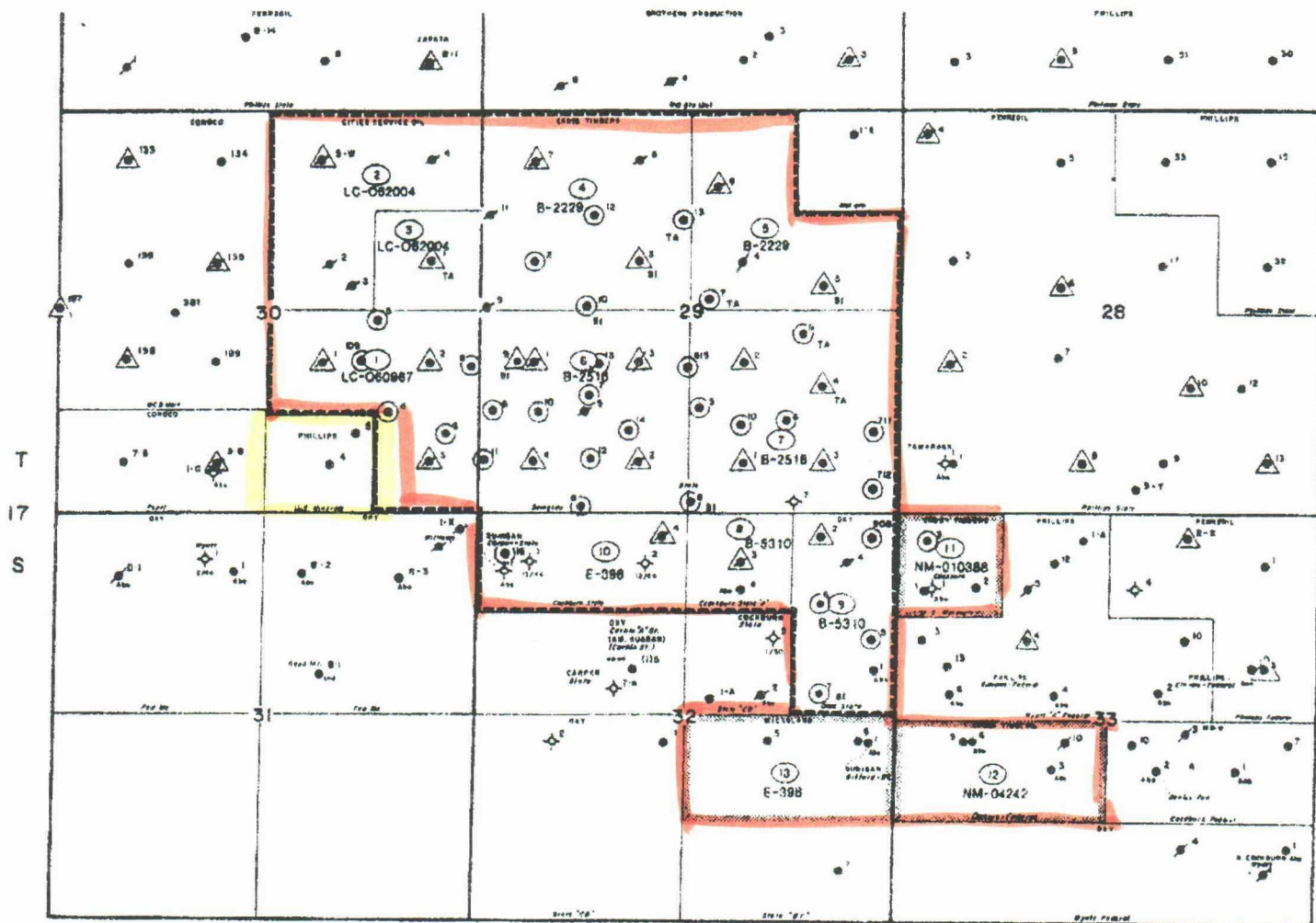


James Bruce  
P.O. Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043

Attorney for Cross Timbers Oil  
Company

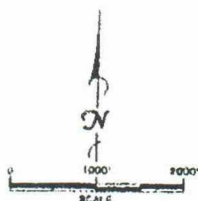
R 33 E

SHOWING PRODUCTION



**LEGEND**

- ⊙ PRODUCER THIS ZONE
- △ INJECTOR
- ⚡ P & A
- ② TRACT NUMBER
- PROPOSED UNIT EXPANSION
- NM-04242 LEASE NUMBER



**Cross Timbers Oil Company**

**S.E. MALJAMAR GRAYBURG  
SAN ANDRES UNIT  
LEA COUNTY, NEW MEXICO  
REVISED EXHIBIT "A"**

FEBRUARY 20, 1987  
LANDMAN: WIN RYAN

REVISIONS	
DATE	BY

PROPOSED ADVERTISEMENT

Case 12658: Application of Cross Timbers Oil Company for unit expansion, Lea County, New Mexico. Applicant seeks an order expanding the Southeast Maljamar Grayburg-San Andres Unit to cover the Maljamar Grayburg-San Andres Pool underlying parts of Sections 29, 30, 32, and 33, Township 17 South, Range 33 East, NMPM, comprising 1320 acres, more or less, of state and federal lands. The unit is centered approximately 6 miles Southeast of Maljamar, New Mexico.

**UNIT AGREEMENT**

**SOUTHEAST MALJAMAR GRAYBURG-SAN ANDRES UNIT**

**MALJAMAR FIELD**

**Lea County, New Mexico**

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
SOUTHEAST MALJAMAR GRAYBURG-SAN ANDRES UNIT  
MALJAMAR FIELD  
LEA COUNTY, NEW MEXICO

<u>Article</u>	<u>Table of Contents</u>	<u>Page</u>
1	Enabling Act and Regulations	
2	Unit Area and Definitions	
2.1	Unit Area	3
2.2	Land Commissioner	3
2.3	Commission	3
2.4	Secretary	3
2.5	Department	3
2.6	Director	3
2.7	Supervisor	3
2.8	Unitized Formation	3
2.9	Unitized Land	4
2.10	Unitized Substances	4
2.11	Working Interest	4
2.12	Working Interest Owner	4
2.13	Royalty Interest	4
2.14	Royalty Owner	4
2.15	Tract Participation	4
2.16	Phase I	4
2.17	Phase II	5
2.18	Voting Interest	5
2.19	Unit Participation	5
2.20	Unit Operating Agreement	5
2.21	Unit Operator	5
2.22	Unit Manager	5
2.23	Unit Operations	6
2.24	Unit Equipment	6
2.25	Unit Expense	6
2.26	Outside Substances	6
3	Exhibits and Enlargement of Unit Area	
3.1	Exhibits	6
3.2	Exhibits Considered Correct	6
3.3	Revision of Exhibits	6
3.4	Correction of Errors	7
3.5	Filing of Exhibits	7
3.6	Enlargement of Unit Area	7
4	Unitized Land and Unitized Substances	8
5	Tracts Qualified for Unit Participations	9
6	Unit Operator	11
7	Resignation or Removal of Unit Operator	11
8	Successor Unit Operator	12
9	Unit Operating Agreement	13
10	Rights and Obligations of Unit Operator	13

<u>Article</u>		<u>Page</u>
11	Plan of Operation	14
12	Tract Participation	15
13	Allocation of Unitized Substances	17
14	Royalty Settlement	18
15	Rental Settlement	20
16	Conservation	20
17	Drainage and Border Agreements	20
18	Leases and Contracts Conformed and Extended	21
19	Covenants Run With Land	23
20	Effective Date	24
21	Term	25
22	Termination by Working Interest Owners	25
23	Effect of Termination	25
24	Salvaging Equipment Upon Termination	26
25	Certificate of Termination	26
26	Rate of Prospecting, Development and Production	26
27	Appearances	27
28	Notices	27
29	No Waiver of Certain Rights	27
30	Unavoidable Delay	28
31	Nondiscrimination	28
32	Loss of Title	28
33	Non-Joinder and Subsequent Joinder	29
34	Execution	30
35	Taxes	31
36	United States Department of Agriculture Stipulation	31
37	Measurement of Production as of the Effective Date	31
37.1	Oil in Lease Tanks	31
37.2	Overproduction	32



<u>Article</u>		<u>Page</u>
38	Relationship of Parties	
38.1	No Partnership	32
38.2	No Sharing of Market	32
38.3	Royalty Owners Free of Costs	32
	Exhibit "A" (Map of Unit Area)	
	Exhibit "B" (Schedule of Ownership)	
	Exhibit "C" (Tract Participation)	

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
SOUTHEAST MALJAMAR GRAYBURG-SAN ANDRES UNIT  
MALJAMAR FIELD  
LEA COUNTY, NEW MEXICO

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

THIS AGREEMENT, entered into this 2nd day of May,  
1966, by and between the parties subscribing, ratifying or consenting hereto,  
and herein referred to as "parties hereto",

WITNESSETH:

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

WHEREAS, the Commissioner of Public Lands of the State of New  
Mexico is authorized by an Act of the Legislature (Sec. 7-11-39, N.M.S.  
1953 Anno) 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 Commissioner of Public Lands of the State of  
New Mexico is authorized by an Act of the Legislature (Sec. 7-11-41, N.M.S.  
1953 Anno) to amend with the approval of the lessee, any oil and gas lease  
embracing State lands so that the length of the term of said lease may coin-  
cide with the term of such unitized development and operation of State lands;  
and

WHEREAS, the Oil Conservation Commission of the State of New  
Mexico is authorized by law (Sec. 65-3-14, N.M.S. 1953 Anno) to approve  
this agreement, and the conservation provisions hereof; and

WHEREAS, the Mineral Leasing Act of February 25, 1920  
(41 Stat. 437, as amended 30 U.S.C. Sections 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 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 parties hereto hold sufficient interests in the Southeast Maljamar Grayburg-San Andres Unit covering the land hereinafter described to give reasonably effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto, to institute and consummate secondary recovery operations, pressure maintenance or other recovery program, to conserve natural resources, to prevent waste and secure other benefits obtainable through development and operation of the Unit Area subject to this agreement under the terms, conditions and limitations herein set forth.

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the Unitized Formation as defined underlying the below defined Unit Area, and agree severally among themselves as follows:

ARTICLE 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder and valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of the agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State of New Mexico, are hereby accepted and made a part of this agreement.

ARTICLE 2. UNIT AREA AND DEFINITIONS. The area depicted on Exhibit "A" and described by tracts in Exhibit "B" attached hereto is hereby designated and recognized as constituting the Unit Area, containing 1,080 acres, more or less, in Lea County, New Mexico.

As used in this Agreement, the following terms set out shall have the following meaning.

2.1 "Unit Area" is defined as those lands specified on Exhibit "A" hereof.

2.2 "Land Commissioner" shall mean the Commissioner of Public lands of the State of New Mexico.

2.3 "Commission" shall mean the Oil Conservation Commission of the State of New Mexico.

2.4 "Secretary" shall mean the Secretary of the Interior of the United States of America.

2.5 "Department" shall mean the Department of the Interior of the United States of America.

2.6 "Director" shall mean the Director of the United States Geological Survey.

2.7 "Supervisor" shall mean the Oil and Gas Supervisor of the United States Geological Survey for the region in which the Unit Area is situated.

★ 2.8 "Unitized Formation" shall mean the stratigraphic interval underlying the Unit Area, as to Tracts qualified under Article 5, extending from the top of the Grayburg Formation down to and including a depth of one hundred feet (100') below the top of the San Andres formation, said formation tops being encountered at depths of 4022 feet and 4360 feet, respectively, as reflected on the Lane Wells Gamma Ray-Neutron Log run December 10, 1957, in the Pennzoil (originally Zapata) Phillips State No. 2 well located 1980 feet from the South line and 660 feet from the West line of Section 28, T-17S, R-33E, Lea County, New Mexico.

2.9 "Unitized Land" shall mean that part of the Unit Area committed to this Agreement as to the Unitized Formation and qualified under Article 5.

2.10 "Unitized Substances" means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Land.

2.11 "Working Interest" means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing, and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.

2.12 "Working Interest Owner" shall mean a party who owns a Working Interest. The owner of oil and gas rights that are free of lease or other instruments conveying the Working Interest to another, shall be regarded as a Working Interest Owner to the extent of 7/8 of his working interest in Unitized Substances and as a Royalty Owner with respect to the remaining 1/8 interest therein.

2.13 "Royalty Interest" shall mean a right to or interest in any portion of the Unitized Substances or proceeds thereof, other than a Working Interest.

2.14 "Royalty Owner" shall mean a party hereto who owns a Royalty Interest.

2.15 "Tract Participation" shall mean that percentage of Unitized Substances allocated to a tract committed to this Agreement and which is based upon the formula as set forth in Article 12 of this Agreement.

2.16 "Phase I" shall mean the producing period of time beginning with the effective date hereof, and continuing until 7 o'clock a.m. on the first

day of the calendar month after 463,389 barrels of oil have been produced subsequent to June 30, 1964. For the purposes of determining barrels of oil produced hereunder, operators' monthly reports, Form C-115, filed with the New Mexico Oil Conservation Commission shall be deemed the controlling evidence. The percentage participation for each tract during Phase I is shown on Exhibit "C" attached hereto.

2.17 "Phase II" shall mean the producing period commencing immediately on the expiration of Phase I and continuing thereafter during the remaining term of this Agreement. The percentage participation for each tract during Phase II is shown on Exhibit "C" attached hereto.

2.18 "Voting Interest" of each Working Interest Owner shall mean the sum of the percentages obtained by multiplying such Working Interest Owners' Working Interest in each tract by the Tract Participation of such tract as designated in Phase II.

2.19 "Unit Participation" of each Working Interest Owner means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

2.20 "Unit Operating Agreement" shall mean the Agreement entitled "Unit Operating Agreement, Southeast Maljamar Grayburg-San Andres Unit, Maljamar Field, Lea County, New Mexico" of the same effective date as the effective date of this Agreement and executed by and between the Working Interest Owners who are Parties to this Agreement and any amendment thereof.

2.21 "Unit Operator" shall mean the Working Interest Owner designated in this Agreement to develop and operate the Unitized Formation. The rights delegated to the Unit Operator as such by this Agreement are not to be regarded as a Working Interest.

2.22 "Unit Manager" shall mean that person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator, as provided for in Article 7 hereof.

2.23 "Unit Operations" shall mean all operations conducted by Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of the development and operation of the Unit Area for the production of Unitized Substances.

2.24 "Unit Equipment" shall mean all personal property, lease and well equipment, plants and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

2.25 "Unit Expense" shall mean all costs, expenses, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

2.26 "Outside Substances" shall mean all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.

### ARTICLE 3. EXHIBITS AND ENLARGEMENT OF UNIT AREA

3.1 Exhibit "A", attached hereto, is a map showing, in addition to the boundary of the Unit Area, the boundaries and identity of tracts and leases in the Unit Area to the extent known to the Unit Operator. The various tracts, as shown on Exhibit "A", may be referred to by the number contained in the circle on each tract. Exhibit "B", attached hereto, is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the Unit Area. Exhibit "C" attached hereto, is a schedule of the Tract Participation of each tract during Phase I and Phase II, upon a presumed 100% commitment. Nothing herein or in said Exhibits shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said Exhibits as owned by such party.

3.2 "Exhibits Considered Correct". An Exhibit shall be considered to be correct until revised as herein provided.

3.3 "Revision of Exhibits". Exhibits "A", "B", and "C" shall be revised by the Unit Operator whenever pertinent changes render such revision necessary, or when requested by the Land Commissioner or Supervisor.

3.4 "Correction of Errors". It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this Agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners, the Land Commissioner and the Supervisor.

3.5 "Filing of Exhibits". When any Exhibit, or any revisions thereof, is revised pursuant to this Agreement, Unit Operator shall certify and file such Exhibits, or any revisions thereof, for record in the County or Counties in which this Agreement is filed and shall file at least two (2) copies with the Land Commissioner and not less than six (6) copies thereof with the Supervisor.

3.6 "Enlargement of Unit Area". The Unit Area may, with the approval of Working Interest Owners of not less than eighty percent (80%) of the Voting Interest and the approval of the Land Commissioner and the Director, be enlarged to include therein any additional tract or tracts whenever such expansion is necessary or advisable to conform with the purposes of this Agreement and the Unit Operator, acting on behalf of, and with such approval of the Working Interest Owners as provided in the Unit Operating Agreement, has negotiated an agreement or agreements with the owners of such tract or tracts committing such owners to this Agreement and to the Unit Operating Agreement. Upon such approved enlargement, the Tract Participation of all committed tracts shall be adjusted and Exhibits "A", "B" and "C" shall be revised to conform thereto.

Any enlargement of the Unit Area shall be affected in the following manner:

- (a) Unit Operator, after preliminary concurrence by the Land Commissioner and the Director, shall prepare a notice of proposed enlargement describing the contemplated changes in the



boundaries of the Unit Area, the reasons therefor, the proposed effective date thereof, preferably 7 o'clock a.m. of the first day of the month subsequent to the date of notice.

(b) Said notice shall be delivered to the Land Commissioner, the Supervisor and copies thereof mailed to the last known address of each Working Interest Owner, lessee, and lessor, whose interests are affected, setting out the basis for admission, the Unit Participation to be assigned to such tract or tracts, and other pertinent data, advising that thirty (30) days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding section (b) hereof, Unit Operator shall file with the Land Commissioner, Supervisor, and the Commission evidence of mailing of the notice of enlargement, evidence of consent by not less than eighty percent (80%) of the Voting Interest of Working Interest Owners and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number for approval of such enlargement, appropriate joinders, and such other information as may be necessary to show that the lands to be added to the Unit Area have qualified under Articles 5 and 33.

(d) After due consideration of all pertinent information the enlargement shall, upon approval by the Land Commissioner, the Director, and the Commission, become effective as of the date prescribed in the notice thereof.

#### ARTICLE 4. UNITIZED LAND AND UNITIZED SUBSTANCES

4.1 All land committed to this agreement as to the Unitized Formation shall constitute land referred to herein as "unitized land" or "land subject to this agreement." All oil and gas in said Unitized Formation of the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

ARTICLE 5. TRACTS QUALIFIED FOR UNIT PARTICIPATION

5.1 As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the tract involved is qualified under this Article.

On and after the effective date hereof, the tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances therefrom shall be those tracts within the Unit Area and more particularly described in Exhibit "B" that are qualified as follows:

- (a) Each tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have signed or ratified this Agreement and the Unit Operating Agreement and Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have signed or ratified this Agreement.
- (b) Each tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (1) all such Working Interest Owners in such tract have joined in a request for the qualification of such tract, and as to which (2) eighty percent (80%) of the combined Voting Interest in all tracts that meet the requirements of Section (a) above have voted in favor of the qualification of such tract. For the purpose of this Section (b) the Voting Interest of a Working Interest Owner shall be equal to the ratio (expressed in percentage) that its aggregate Phase II Unit Participation attributable to tracts that qualify under Section (a) bears to the total Phase II Unit Participation of all Working Interest Owners attributable to all tracts that qualify under Section (a) above.

(c) Each tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement and the Unit Operating Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working Interest Owner who operates the tract and all of the other Working Interest Owners in such tract who have become parties to this Agreement have joined in a request for qualification of such tract and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners of Unitized Land, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such tract who are not parties to this Agreement and which arise out of the qualification of the tract and as to which (2) eighty percent (80%) of the combined Voting Interest in all tracts that meet the requirements of Sections (a) and (b) above, have voted in favor of the qualification of such tract and acceptance of the indemnity agreement. For the purposes of this Section (c), the Voting Interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) that its aggregate Phase II Unit Participation attributable to tracts that qualify under Sections (a) and (b) bears to the total Phase II Unit Participation of all Working Interest Owners attributable to all tracts that qualify under Sections (a) and (b). Upon the qualification of such a tract, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such tract who have become parties to such Agreements, in proportion to their respective Working Interests in the tract.

## ARTICLE 6. UNIT OPERATOR

6.1 Cities Service Oil Company is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term Working Interest Owner when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

## ARTICLE 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR

7.1 Unit Operator shall have the right to resign at any time but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been served by Unit Operator on all Working Interest Owners, the Land Commissioner and the Director, and until all wells are placed in a satisfactory condition for suspension or abandonment, whichever is required by the Supervisor, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the affirmative vote of at least two (2) Working Interest Owners owning at least seventy-five percent (75%) of the Voting Interests other than the Voting Interest of such owner then acting as Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the Director. In all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for performance

of the duties of Unit Operator, and shall not later than thirty (30) days before such resignation or removal becomes effective appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, materials, appurtenances, and all pertinent unit data requested by the successor Unit Operator, used in conducting the Unit Operations and owned by the Working Interest Owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purposes of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

#### ARTICLE 8. SUCCESSOR UNIT OPERATOR

8.1 Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, a successor Unit Operator shall be selected by the affirmative vote of at least two (2) Working Interest Owners having in the aggregate not less than seventy-five percent (75%) of the Voting Interest; provided, however, that a deposed Unit Operator may not vote to succeed itself. Such selection shall not become effective until:

- (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator; and
- (b) the selection shall have been approved by the Land Commissioner and filed with the Supervisor.

If no successor Unit Operator is selected and accepted as herein provided, Land Commissioner and the Director, at their election, may declare this Agreement terminated.

#### ARTICLE 9. UNIT OPERATING AGREEMENT

9.1 Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid and apportioned among and borne by the Working Interest Owners all in accordance with the agreement or agreements entered into by and between the Unit Operator and the Working Interest Owners. Any agreement or agreements entered into between the Working Interest Owners and the Unit Operator as provided in this section are herein referred to as the "Unit Operating Agreement". Such Unit Operating Agreement shall also set forth such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligations established under this Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Three (3) true copies of any Unit Operating Agreement executed pursuant to this Article shall be filed with the Supervisor, prior to approval of this Unit Agreement, and as many copies as is requested shall be filed with the Land Commissioner.

#### ARTICLE 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR

10.1 Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto, including surface rights, which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this Agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the right of possession and use vested in the Parties hereto only for the purposes herein specified.

## ARTICLE 11. PLAN OF OPERATION

11.1 It is recognized and agreed by the Parties hereto that the Unit Area is already developed and productive, and no further drilling is contemplated, except such as may be incidental to carrying out the unit plan of operation.

Inasmuch as the primary purpose of this Unit Agreement is to permit the institution and consummation of a secondary recovery or pressure maintenance program for the maximum economic production of Unitized Substances consistent with good engineering and conservation, Unit Operator, after approval of Working Interest Owners, concurrently with the filing of this Unit Agreement for final approval, shall submit to the Land Commissioner and the Supervisor for approval, a plan of operation for the Unitized Land, and such plan, upon approval by the Land Commissioner and the Supervisor shall constitute the future operating obligations of the Unit Operator under this Unit Agreement for the period specified therein. Thereafter, from time to time, before the expiration of any existing plan, the Unit Operator, with the approval of the Working Interest Owners, shall submit to the Land Commissioner and the Supervisor for approval a plan for an additional specified period of operation; said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interest of all parties to this Unit Agreement. Reasonable diligence shall be exercised in complying with the obligations of any plan of operation.

Any plan submitted pursuant to this Article shall be complete and adequate as the Land Commissioner and the Supervisor may determine to be necessary for timely and diligent operation and for proper conservation of Unitized Substances and shall:

- (a) Specify the number and location of any wells to be drilled and the time of such drilling; and
- (b) Specify the number and location of any well to be selected for injection; and
- (c) Specify all pertinent operating practices to be employed in the interests of all parties to this Agreement.

Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or pressure maintenance purposes in accordance with a plan of operation approved by the Land Commissioner and the Supervisor, including the right to convert producing wells and to drill and maintain injection wells on Unitized Land and to use abandoned wells or wells producing from the Unitized Formation for said purposes. Moreover, Unit Operator shall have the right to produce brine or water, or both, from any formation above or below the Unitized Formation, for use in injection into the Unitized Formation. After commencement of secondary operations, Unit Operator shall furnish the Commissioner and the Supervisor monthly progress reports including injection and production reports for each unit well.

## ARTICLE 12. TRACT PARTICIPATION

12.1 Tract Participation. In Exhibit "C" attached hereto, there are listed and numbered the various tracts within the Unit Area and set forth opposite each tract are the percentages of participation for each tract in the Unit Area during Phase I and Phase II calculated on the basis of one hundred percent (100%) tract commitment.

The percentage of participation of each tract during Phase I shown on Exhibit "C" was determined in accordance with the following formula:

Tract Participation during Phase I equals

$$\frac{\text{Tract Production for one year Ending 6-30-64}}{\text{Unit Area Production for one year Ending 6-30-64}} \times 50\% \text{ plus}$$

$$\frac{\text{Tract Remaining Primary as of 6-30-64}}{\text{Unit Area Remaining Primary as of 6-30-64}} \times 50\%$$

The percentage of participation of each tract during Phase II shown on Exhibit "C" was determined in accordance with the following formula:

Tract Participation during Phase II equals

$$\frac{\text{Tract Ultimate Primary}}{\text{Unit Area Ultimate Primary}} \times 90\% \text{ plus}$$



$$\frac{\text{Tract Developed Acreage}}{\text{Unit Area Developed Acreage}} \quad \times 5\% \text{ plus}$$

$$\frac{\text{Tract Acreage}}{\text{Unit Area Acreage}} \quad \times 5\%$$

The Unit Area ultimate primary recovery as used herein is the sum of the accumulated oil production through June 30, 1964 (2,105,747 bbls.) as reported on pertinent operators' monthly reports (Form C-115) on file with the Commission and the estimated remaining primary oil reserves as of June 30, 1964, which is 463,389 barrels.

Developed acreage as used herein above is the acreage in all regular 40-acre subdivisions which have produced oil from the zone referred to herein as the Unitized Formation.

If all tracts of this Unit Agreement are not committed hereto, Unit Operator shall revise Exhibit "C", promptly after approval of this Unit Agreement, to show all tracts committed to this Agreement by setting forth opposite each committed tract a revised Tract Participation percentage therefor which shall be calculated by using the same tract factors and formula which were used to arrive at the Tract Participation percentage of each tract as set out in the original Exhibit "C", but applying the same only to said committed tracts. Such revised Exhibit "C" shall be filed pursuant to Article 3. Thereafter, Exhibit "C" shall be revised by Unit Operator with the approval of the Working Interest Owners whenever any change in committed tracts renders such revision necessary. Such revised Exhibit "C" shall, upon approval by the Land Commissioner and the Director, supersede, as of its effective date, the last previously effective Exhibit "C". In any revision of Exhibit "C" pursuant to Article 3, the revised percentage participations of the respective tracts which were committed hereto prior to such revision shall remain in the same ratio one to another. In any revision of Exhibit "C" pursuant to Article 33, the revised percentage participations of the respective tracts which were committed hereto prior to such revision shall be recalculated

using the same tract factors and formula which were used in calculating the percentage participation of each tract as set forth in Exhibit "C", applying the same to the committed tracts only.

#### ARTICLE 13. ALLOCATION OF UNITIZED SUBSTANCES

All Unitized Substances produced and saved shall be allocated to the qualified Tracts in accordance with the respective Tract Participations as set out in Exhibit "C" effective during the period that the Unitized Substances were produced. The amount of Unitized Substances allocated to each Tract, regardless of whether it is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal effect. No tract qualified for participation shall be subsequently excluded from participation hereunder on account of depletion of its Unitized Substances, and nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the qualification of any Tract. If any Oil and Gas Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners entitled thereto by virtue of the ownership of Oil and Gas Rights therein. Such parties shall have the right to receive such production in kind at a common point within the Unitized

Land and to construct, maintain, and operate within the Unitized Land all necessary facilities for that purpose, provided such facilities are so constructed, maintained, and operated so as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the receiving party.

If any Working Interest Owner fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto. Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party ninety (90) days' notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for payment of all Royalty on the lease or leases affected.

#### ARTICLE 14. ROYALTY SETTLEMENT

14.1 The State of New Mexico and the United States and all Royalty Owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator and shall make deliveries of such royalty share taken in kind in conformity with the applicable

contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases except that said royalties shall be computed in accordance with the terms of this Agreement.

14.2 Use of Outside Substances. If gas obtained from lands or formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulation or production or increasing ultimate recovery, which shall be in conformity with a plan of operation first approved by the Land Commissioner and the Supervisor, a like amount of gas, with appropriate deduction for loss or depletion from any cause, may be withdrawn from the Unitized Formation royalty free as to dry gas, but not royalty free as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as otherwise may be consented to by the Land Commissioner and the Supervisor as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this Unit Agreement.

14.3 Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all Unitized Substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation; provided, that for leases on which the royalty rate depends on the daily average production per well, such average production shall be determined in accordance with the operating regulations as though the unitized lands were a single consolidated lease.

#### ARTICLE 15. RENTAL SETTLEMENT

15.1 Rental or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessee of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental or minimum royalty for lands of the United States subject to this Agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico.

#### ARTICLE 16. CONSERVATION

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

#### ARTICLE 17. DRAINAGE AND BORDER AGREEMENTS

17.1 The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances by wells on land not subject to this Agreement.

The Unit Operator, upon approval of the Supervisor and Land Commissioner is hereby empowered to enter into a border line agreement or agreements with the Working Interest Owners of adjoining lands not subject to this Unit Agreement, with respect to the operation in the border area for the maximum economic recovery, conservation purposes, and proper protection of the parties and interests affected.

ARTICLE 18. LEASES AND CONTRACTS CONFORMED AND  
EXTENDED

18.1 The terms, conditions, and provisions of all leases, sub-leases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement, and, without limiting the generality of the foregoing, all leases, sub-leases, and contracts are particularly modified in accordance with the following:

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

(b) Drilling and producing operations performed hereunder upon any tract will be accepted and deemed to be performed upon and for the benefit of each and every tract of Unitized Land and no

lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all Unitized Land pursuant to direction or consent of the Secretary or his duly authorized representative shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of Unitized Land.

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

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

(f) Any lease embracing lands of the State of New Mexico, which is made subject to this Agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to that portion committed and that portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this Agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease (whether

within or without the Unitized Lands), (1) if, and for so long as oil or gas are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this Agreement; or (2) if, and for so long as some part of the lands embraced in such lease committed to this Agreement are allocated Unitized Substances; or (3) if, at the expiration of Phase II the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein and for so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas said lease shall continue in full force and effect as to all the lands embraced therein so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

(h) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

#### ARTICLE 19. COVENANTS RUN WITH LAND

19.1 The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and



their successors in interest until this Agreement terminates, and any grant, transfer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest, Royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photo-static, or certified copy of the instrument of transfer.

#### ARTICLE 20. EFFECTIVE DATE

20.1 This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7 o'clock a.m., of the first day of the calendar month next following:

- (a) The qualification, in accordance with Article 5, of tracts representing eighty-five percent (85%) of Phase II of the Unit Participation on the original Exhibit "C" attached hereto; and
- (b) The approval of this Agreement by the Land Commissioner, the Commission, and the Director; and
- (c) The filing of at least one counterpart of this Agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and provided, further, that if (a) and (b) above are not accomplished on or before December 31, 1966, this Agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning at least eighty percent (80%) of the combined Phase II Participation and have decided to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a) and (b) above

are not accomplished before said extended expiration date, this Agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect.

Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for record in the office where a counterpart of this Agreement is recorded, a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date.

#### ARTICLE 21. TERM

21.1 The term of this Agreement shall be for and during the time that Unitized Substances are or can be produced in paying quantities, i.e., in quantities sufficient to pay for the cost of producing same from wells on the Unitized Land, and for so long thereafter as drilling, reworking or other diligent operations are prosecuted on Unitized Land without cessation of more than ninety (90) consecutive days, and so long thereafter as Unitized Substances can be produced as aforesaid. Termination under this Article 21 shall be effective as of the first day of the month after the Unit Operator and Working Interest Owners owning eighty percent (80%) of the Phase II Participation shall determine on confirmatory data satisfactory to the Land Commissioner, Commission, and the Director, that Unit Operations are no longer paying.

#### ARTICLE 22. TERMINATION BY WORKING INTEREST OWNERS

22.1 For any reason other than provided in Article 21 above, this Agreement may be terminated by Working Interest Owners owning in the aggregate eighty percent (80%) or more of the Unit Participation with the approval of the Land Commissioner, Commission, and the Director. Notice of any such termination shall be given by the Unit Operator to all parties hereto.

#### ARTICLE 23. EFFECT OF TERMINATION

23.1 Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate tracts just as if this Agreement had never been entered into.

ARTICLE 24. SALVAGING EQUIPMENT UPON TERMINATION

24.1 If not otherwise specified by the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

ARTICLE 25. CERTIFICATE OF TERMINATION

25.1 Unit Operator shall within thirty (30) days after the effective date of termination of this Agreement file for record in the office or offices where a counterpart of this Agreement is recorded, a certificate setting forth such termination date.

ARTICLE 26. RATE OF PROSPECTING, DEVELOPMENT  
AND PRODUCTION

26.1 All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, at his discretion, the rate of prospecting and development and, within the limits made or fixed by the Commission, to alter or modify 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 land 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 Land Commissioner and as to any lands of the State of New Mexico or privately-owned land subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this Section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.

#### ARTICLE 27. APPEARANCES

27.1 Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Land Commissioner, the Department and the Commission, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner, the Department or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in such proceeding.

#### ARTICLE 28. NOTICES

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

#### ARTICLE 29. NO WAIVER OF CERTAIN RIGHTS

29.1 Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State of New Mexico or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, each party hereto, covenants that, during the existence of this Agreement, such party shall not resort to any action at law or in equity to partition the Unitized Land or the facilities used in the development or operation thereof and to that extent waives the benefits of all laws authorizing such partition.

#### ARTICLE 30. UNAVOIDABLE DELAY

30.1 All obligations imposed by this Agreement on each party hereto, except for the payment of money, shall be suspended while said party is prevented from complying therewith, in whole or in part, by strikes, fire, war, civil disturbances, act of God, federal, state or municipal laws, orders or regulations, inability to secure materials or other causes beyond the reasonable control of said party; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed; and provided further that no party shall be required against its will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other interests subject hereto shall be terminated by reason of suspension of Unit Operations due to the aforesaid causes.

#### ARTICLE 31. NONDISCRIMINATION

31.1 In connection with the performance of work under this Agreement, the Unit Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F. R. 12319), which are hereby incorporated by reference in this Agreement.

#### ARTICLE 32. LOSS OF TITLE

32.1 In the event title to any tract of Unitized Land shall fail and the true owner cannot be induced to join in this Unit Agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute to title as to any Royalty, Working Interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to State or Federal land or leases, no payments of funds due the State of New Mexico or the United States of America shall be withheld, but such funds shall be deposited as directed by the Commissioner or the Supervisor (which ever is appropriate) 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.

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

32.3 In order to avoid title failures which might incidentally cause the title to a Working Interest or interests to fail, the owners of the surface rights to lands lying within the Unitized Land, severed minerals or Royalty Interests in said lands, and improvements located on said lands but not utilized for Unit Operations, shall individually be responsible for the rendition and assessment, for ad valorem tax purposes, of all such property, and for the payment of such taxes, except as otherwise provided in any contract or agreement between such owners and a Working Interest Owner or owners or in the Unit Operating Agreement. If any ad valorem taxes are not paid by such owners responsible therefor when due, the Unit Operator may, at any time prior to tax sale, pay the same, redeem such property, and discharge such tax liens as may arise through non-payment. In the event the Unit Operator makes any such payment or redeems any such property from tax sale, the Unit Operator shall be reimbursed therefor by the Working Interest Owners in proportion to their respective Unit Participation; and the Unit Operator shall withhold from the proceeds otherwise due to said delinquent taxpayer or taxpayers, an amount sufficient to defray the costs of such payment or redemption, such withholdings to be distributed among the Working Interest Owners in proportion to their respective contributions toward such payment or redemption.

#### ARTICLE 33. NON-JOINDER AND SUBSEQUENT JOINDER

33.1 Any oil or gas interests in lands within the Unit Area, not committed hereto prior to submission of this Agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this Agreement, and, if the interests is a Working Interest, by the owner of such interest also subscribing to the Unit Operating Agreement. It is understood and agreed, however, that after the effective date hereof the commitment hereto of any Working Interest within the Unit

Area shall be upon such terms and conditions as may be negotiated by the Unit Operator, the Working Interest Owners in the committed tracts, and the owner of such interest. Such negotiated basis of participation is subject to preliminary approval of the Director and the Commissioner.

After the effective date hereof, joinder by a Royalty Owner must be consented to in writing by the Working Interest Owner committed hereto and responsible for the payment of any benefits that may accrue hereunder of such Royalty Interest. Joinder by any owner of a Royalty Interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as effectively committed hereto. Joinder to the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Except as may otherwise herein be provided, subsequent joinders to this Agreement shall be effective as of the first day of the month following the filing with the Land Commissioner, Commission and the Supervisor of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this Agreement, unless objection to such joinder is duly made within sixty (60) days by the Land Commissioner, Commission or Director.

#### ARTICLE 34. EXECUTION

34.1 This Agreement may be executed in any number of counterparts no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

34.2 "Joinder in Dual Capacity". It shall not be necessary for parties owning both Working Interests and Royalty Interests to execute this

Agreement in both capacities in order to commit both classes of interests. Execution hereof by any such party in one capacity shall also constitute execution in the other capacity.

34.3 "Recording". For recording purposes in the office of the County Clerk of Lea County, State of New Mexico, or in any other governmental office wherein recording is required, Unit Operator is authorized to include in one copy the signature sheets of all signed counterparts and of all ratifications.

#### ARTICLE 35. TAXES

35.1 Unit Operator shall pay, or cause to be paid, all taxes levied on or measured by the Unitized Substances in and under, or that may be produced, gathered, and sold from the lands subject hereto, or upon the proceeds or net proceeds derived therefrom to the extent that the same are made payable by law by any Working Interest Owner. Each Working Interest Owner shall reimburse Unit Operator for taxes so paid on its behalf and such Working Interest Owner shall make proportionate deductions of such taxes as paid in settling with its Royalty Owners in each separately owned tract. No such taxes shall be charged to the United States, the State of New Mexico, or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

#### ARTICLE 36. UNITED STATES DEPARTMENT OF AGRICULTURE STIPULATION

36.1 Nothing herein contained shall be construed as modifying in any manner any special stipulations in applicable leases pertaining to the United States Department of Agriculture jurisdiction.

#### ARTICLE 37. MEASUREMENT OF PRODUCTION AS OF THE EFFECTIVE DATE

37.1 "Oil in Lease Tanks". Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipe line



connections, as of 7:00 o'clock, a.m., on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provisions of the applicable lease or other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unit Production produced after the effective date hereof.

37.2 "Overproduction". If, as of the effective date hereof, any tract is overproduced with respect to the allowable of the wells on that tract and the amount of overproduction shall be regarded as a part of the Unit Production produced after the effective date hereof and shall be charged to such tract as having been delivered to the parties entitled to Unit Production allocated to such tract.

#### ARTICLE 38. RELATIONSHIP OF PARTIES

38.1 "No Partnership". The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

38.2 "No Sharing of Market". Nothing in this Agreement shall be construed as providing, directly or indirectly, for any cooperative refining or joint sale or cooperative marketing of Unit Production.

38.3 "Royalty Owners Free of Costs". This Agreement is not intended to impose, and shall not be construed to impose, upon any Royalty Owner any obligation to pay for Unit Expense unless such Royalty Owner is otherwise so obligated.

ADDRESS Cities Service Building  
Bartlesville, Oklahoma

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

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_, to me known to be the person described in and who executed the foregoing instrument, and acknowledges 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.

My Commission Expires: \_\_\_\_\_

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

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

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_, to me known to be the person described in and who executed the foregoing instrument, and acknowledges 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.

My Commission Expires: \_\_\_\_\_

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

STATE OF Oklahoma )  
 ) SS  
COUNTY OF Washington )

On this the 12 day of August, 1966, personally appeared R. H. Tucker, to me personally known, who being by me duly sworn did say that he is the Vice President of CITIES SERVICE OIL COMPANY 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 R. H. Tucker 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.

My Commission Expires: \_\_\_\_\_

Delma Hilson  
Notary Public

OCT 22 1968