

CASE 5188, MINNAPOLIS OIL CO., INC.
A UNIT, MINNAPOLIS, MINN. COUNTY,
New Mexico.

CASE No.

5146

Application,
Transcripts,
Small Exhibits

ETC.

Exhibit #2



United States Department of the Interior

GEOLOGICAL SURVEY
Denver Federal Center
Denver, Colorado 80225

IN REPLY REFER TO:

NOV 13 1973

Midwest Oil Corporation
1500 Wilco Building
Midland, Texas 79701

Gentlemen:

Your application of October 22, filed with the Area Oil and Gas Supervisor, Roswell, New Mexico, on October 24, requests the designation of the Target unit area embracing 5,120 acres, more or less, Eddy County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act as amended.

Pursuant to unit plan regulations of December 20, 1950, 30 CFR 226.3 (1968 reprint), the land requested as outlined on your plat marked "Target Unit, Eddy County, New Mexico, Exhibit A," is hereby designated as a logical unit area.

The unit agreement submitted for the area designated should provide for the drilling of the initial exploratory well to test the Morrow formation of Pennsylvanian age or to a depth of 12,000 feet. As proposed by your application, the form of agreement for unproved areas (1968 reprint) should be used and modified to apply to both Federal and State of New Mexico lands.

In the absence of any other type of land requiring special provisions or any objections not now apparent, a duly executed agreement identical to the 1968 reprint, modified only as outlined above, will be approved if submitted in approvable status within a reasonable period of time. However, the right is reserved to deny approval of any executed agreement which, in our opinion, does not have full commitment of sufficient lands to afford effective control of operations in the unit area.

Please include the latest status of all acreage when the executed agreement is transmitted to the Supervisor for approval. The format of the sample exhibits attached to the 1968 reprint of the standard form should be followed closely in the preparation of exhibits A and B.

Inasmuch as this area contains State of New Mexico lands, we are sending a copy of this letter to the Commissioner of Public Lands at Santa Fe, and we ask that you contact the Commissioner before soliciting joinders.

Sincerely yours,

George W. Horner

Conservation Manager, Central Region
For the Director

Exhibit #2



United States Department of the Interior

GEOLOGICAL SURVEY
Denver Federal Center
Denver, Colorado 80225

IN REPLY REFER TO:

NOV 13 1973

Midwest Oil Corporation
1500 Wilco Building
Midland, Texas 79701

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BEFORE EXAMINER STAMETS	
OIL CONSERVATION COMMISSION	
EXHIBIT NO.	2
CASE NO.	5746
Submitted by	Midwest
Hearing Date	1-16-74

Inasmuch as this area contains State of New Mexico lands, we are sending a copy of this letter to the Commissioner of Public Lands at Santa Fe, and we ask that you contact the Commissioner before soliciting joinders.

Sincerely yours,

George H. Horne
Conservation Manager, Central Region
For the Director

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
January 16, 1974
EXAMINER HEARING

IN THE MATTER OF:

Application of Midwest Oil
Corporation for a unit agree-
ment, Eddy County, New Mexico.

Case No. 5146

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conser-
vation Commission:

Thomas Derryberry, Esq.
Legal Counsel for the Com-
mission
State Land Office Building
Santa Fe, New Mexico

For the Applicant:
(Midwest Oil Corporation)

Clarence Hinkle, Esq.
HINKLE, BONDURANT, EATON & COX
Hinkle Building
Roswell, New Mexico

For the Protestant:
(Michael Grace)

Farrell L. Lines
LAMB, METZGAR, FRANKLIN & LINES
500 Second Street SW
Albuquerque, New Mexico

I N D E X

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E X H I B I T S

	<u>Marked</u>	<u>Admitted</u>
Applicant's Exhibits 1 through 3		9

MR. STAMETS: Call the next case, 5146.

MR. DERRYBERRY: Case 5146. Application of Midwest Oil Corporation for a unit agreement, Eddy County, New Mexico.

MR. HINKLE: Clarence Hinkle, Hinkle, Bondurant, Cox and Eaton, appearing on behalf of Midwest Corporation. We have one witness and three Exhibits.

MR. STAMETS: Any other appearances in this case?

MR. LINES: Farrell Lines appearing for Michael Grace. At this time we would ask for a continuance in this Hearing. We have some leases in Township 25 and 26 South, Range 25 East, Eddy County. However, we haven't been able to determine from the publications here exactly what is going to be included in 5120 acres. We're not sure whether our land is included or whether it isn't. We've never even had the chance to determine whether or not we are in agreement or whether we feel there is justification or not justification for this.

MR. HINKLE: We cannot consent to continuance of this case because this well has to be drilling in order to save the leases in the unit in a very, very short time.

MR. LINES: In the future, when these kinds of cases are advertised is there any way to let us know what it is talking about. Many, many acres here. Let's --

(Whereupon, a discussion was
held off the record.)

MR. STAMETS: Mr. Lines, I'm going to deny your
Motion for continuance and proceed with this case at this
time.

FRANK L. SCHATZ

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

DIRECT EXAMINATION

BY MR. HINKLE:

Q State your name, your residence, and by whom you
are employed?

A My name is Frank L. Schatz, S-c-h-a-t-z. My resi-
dence is Midland, Texas and I'm employed by Midwest Oil
Corporation as Regional Exploration Manager of the Midland
office.

Q Have you previously testified before the Commission?

A I have.

Q And qualified as a petroleum geologist?

A Yes, sir.

Q Are these a matter of record?

A Yes, sir.

Q Are you familiar with the Application of Midwest

SCHATZ-DIRECT

Page.....5.....

in this case?

A I am.

Q What is Midwest seeking to accomplish?

A Midwest seeks to put together an eight-section unit in Township 25 and 26 South, Range 25 East for the drilling of a 12,000-foot Morrow test to be located in the southeast quarter of Section 2, Township 26 South, Range 25 East.

Q This is to be known as the Target Unit Area?

A Yes, sir.

Q Have you prepared, or has anyone prepared under your direction three Exhibits for introduction in this case?

A I prepared or had them prepared under my direction, Exhibits 1 and 3. Exhibit No. 2 is a letter from the U.S.G.S.

Q Refer to Exhibit 1 and explain what this is, what it shows?

A Exhibit No. 1 is a sub-surface structure map contoured on top of the Morrow formation of Pennsylvanian H. Midwest leases are shown in yellow on the map. Production in the area is colored with the code shown at the bottom of the map. This sub-surface structure map at the north end where the production is indicated in the center of the map is the south part of the South Carlsbad Field. Moving then to the south, southwest, we encounter the Crawford and White

SCHATZ-DIRECT

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City Pennsylvanian Fields and continuing on down in a straight line direction is the designated Target Unit.

Q Which is outlined in red?

A Which is outlined in red. Which the location is shown with a red dotted and with an arrow to it.

Q Has this area been designated as an area suitable and proper for unitization by the U.S.G.S.?

A It has, subject to conditions of the approval of a unit agreement.

Q This contains both State and Federal lands?

A Yes.

Q Referring to Exhibit 2, is this the letter of the U.S.G.S. designating the area one suitable for unitization?

A Yes, sir, it is.

Q The letter designating the area, called for the drilling of a Morrow Well, but not to exceed depth of 12,000 feet, is that correct?

A That's correct.

Q Is it your opinion that as a geologist that the well at 12,000 feet will test the Morrow in this area?

A To the best of my ability at this time.

Q Refer to Exhibit 3, which is the proposed formal unit agreement. Has this form, substantially the same form,

SCHATZ-DIRECT

CASE 5146

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heretofore approved by the Commission where Federal and State lands are involved?

A Yes, sir, it is.

Q It has been approved or designated as to the form by the U.S.G.S. and what about the Commissioner of Public Lands?

A The Commissioner of Public Lands has been handed a copy of the unit agreement with Application and filing fee and he has told us verbally that on the surface it appears to be the same unit agreement previously approved by his office. If you wish to call him, he offered to come down and make an appearance as to that statement.

Q Is Midwest designated as the unit operator in the unit agreement?

A Yes, sir, it is.

Q This provides for the drilling of a well which has been referred to as the Morrow formation?

A Yes, it does.

Q That's provided for in Section 9?

A In Section 9.

Q What is the present status of execution of the unit by the working interest owners and the unit royalty owners?

SCHATZ-DIRECT

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A All of the working-interest owners in the unit have ratified a unit agreement and consented to the unit agreement. All, with exception of one percent of the overriding royalty owners in the area have agreed to ratify or have ratified the unit agreement. The one percent that is remaining to be ratified is expected to be in within two weeks.

Q So, you anticipate 100 percent commitment both working interest and overriding royalty interest?

A That's true.

Q The unit agreement, I believe, provides for commencement of the well within six months. Do you intend to commence the well earlier than this?

A We intend to commence the well prior to February 1, which is the expiration date on the first expiring lease in the area.

Q In order to save that lease, the well must be commenced prior to February 1st, is that right?

A In order to save the lease, the unit must be approved and the well commenced by that date.

Q In your opinion, if this Application is approved, will the unit agreement be in the interest of conservation and prevention of waste and protect correlative rights?

SCHATZ-DIRECT

Page.....9.....

A Yes, it will.

MR. HINKLE: I would like to offer Exhibits 1, 2 and 3.

MR. STAMETS: Without objection, Applicant's Exhibits 1 through 3 will be admitted in evidence.

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

MR. HINKLE: Do you have anything further you would like to add?

THE WITNESS: No.

CROSS EXAMINATION

BY MR. PORTER:

Q Is that expiring lease Federal or State?

A That's a Federal Lease. I would like to make a comment to clarify what might be of a concern to you when you look at the Exhibit "A" under the unit agreement. Federal Lease located in Section 3 and Section 11 shows an expiration date of 11-1-73. This Federal Lease was extended by the drilling of the Delaware sandpits in the northwest quarter, Section 11, so that lease should read 11-1-75.

Q So, it's actually in good standing?

A That lease is in good standing.

SCHATZ-CROSS

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MR. PORTER: Thank you.

MR. HINKLE: That's all we have.

MR. STAMETS: Are there any questions of this witness?

MR. LINES: I have no questions.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Schatz, is a copy of the unit agreement in the hands of the U. S. Geological Survey in Denver or Roswell at the time this application was filed?

MR. HINKLE: Did you file the formal unit agreement with your application for designation of the area?

A Yes, but we have not gone back to them with the changed form as it refers to the State and Federal lands.

MR. STAMETS: Any other question of the witness?

You may be excused. Anything further in this case?

(Witness is excused.)

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386

MR. HINKLE: No, he did not file three copies of the unit agreement with the application, so, if you got two copies there and you have one more so that makes the three copies.

MR. STAMETS: Anyone else have anything they wish to offer in this case? Any statements?

MR. DERRYBERRY: Mr. Examiner, I would like to make a statement for the Commission in reply to the remark made by Mr. Grace's attorney as to the question regarding what we knew, if Mr. Michael Grace had any offsetting acreage to the proposed unit. I would like to say that to the Commission's knowledge, the decision made in approving any unit has no effect on any rights of any offsetting owners and for that reason the Commission does not feel that there should be any requirement of the location of the unit other than merely designating the County in which it is to be located should be required.

MR. LINES: I say in our defense that we have incurred other actions like this and in the other action the Commission didn't unitize because of objections we made. We brought our geologist in and produced and submitted other information. I think that in all fairness in this thing, we should have the opportunity to know whether or not we do

have offsets, in fact would have information that could be beneficial to the Commission. I simply can't shut out the opportunity to present it.

MR. DERRYBERRY: As I recall, that was extension of pool boundary rather than approval of a unit.

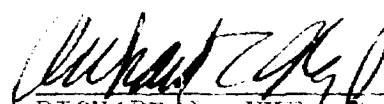
MR. LINES: We also had unitization hearing earlier that we appeared at.

MR. DERRYBERRY: I wanted to get the position of the Commission into the record.

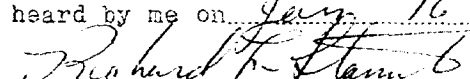
MR. STAMETS: Anything further in this case?
We will take this case under advisement.

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.



RICHARD L. NYE, Court Reporter

I do hereby certify and subscribe to a complete and correct transcript of the Examiner hearing of case No. 5746 heard by me on Jan. 16, 1974.
, Examiner
New Mexico Oil Conservation Commission

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

January 21, 1974

I. R. TRUJILLO
CHAIRMAN
LAND COMMISSIONER
ALEX J. ARMIJO
MEMBER
STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

Mr. Clarence Hinkle
Hinkle, Bondurant, Cox & Eaton
Attorneys at Law
Post Office Box 10
Roswell, New Mexico 88201

Re: CASE NO. 5146
ORDER NO. R-4708
Applicant:
MIDWEST OIL CORPORATION

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Commission order recently entered in the subject case.

Very truly yours,

A. L. Porter, Jr.
A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other

Mr. Farrell Lines
UNIT DIVISION - STATE LAND OFFICE

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 5146
Order No. R-4708

APPLICATION OF MIDWEST OIL CORPORATION
FOR APPROVAL OF THE TARGET UNIT AGREEMENT,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on
January 16, 1974, at Santa Fe, New Mexico, before Examiner
Richard L. Stamets.

NOW, on this 18th day of January, 1974, the Commission,
a quorum being present, having considered the testimony, the
record, and the recommendations of the Examiner, and being
fully advised in the premises,

FINDS:

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

(2) That the applicant, Midwest Oil Corporation, seeks
approval of the Target Unit Agreement covering 5120 acres,
more or less, of State and Federal lands described as follows:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 25 SOUTH, RANGE 25 EAST, NMPM
Section 34: S/2
Section 35: All
Section 36: All

TOWNSHIP 26 SOUTH, RANGE 25 EAST, NMPM
Section 1: All
Section 2: All
Section 3: All
Section 10: N/2
Section 11: All
Section 12: All

(3) That approval of the proposed unit agreement should
promote the prevention of waste and the protection of correlative
rights within the unit area.

IT IS THEREFORE ORDERED:

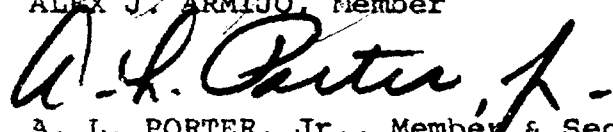
- (1) That the Target Unit Agreement is hereby approved.
- (2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.
- (3) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.
- (4) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.
- (5) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

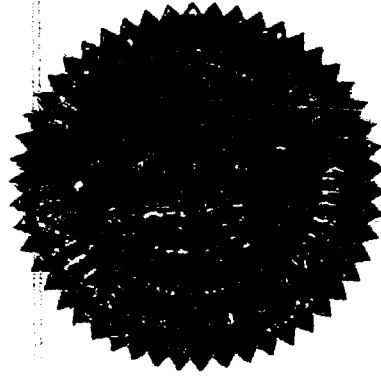
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


I. R. TRUJILLO, Chairman


ALEX J. ARMIJO, Member


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


S E A L

dr/

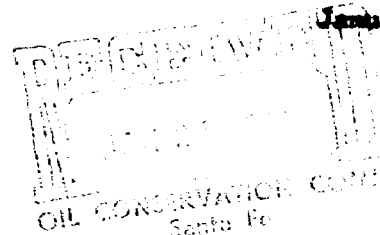


United States Department of the Interior

GEOLOGICAL SURVEY
Drawer 1857
Roswell, New Mexico 88201

January 30, 1974

Midwest Oil Corporation
1500 Wilco Building
Midland, Texas



Gentlemen:

The Target unit agreement, Eddy County, New Mexico, was approved on January 30, 1974. The agreement has been designated No. 14-08-0001-13815 and is effective as of the date of the approval.

Enclosed are two copies of the approved agreement. We request that you furnish the New Mexico State Land Commissioner and any other interested principals with appropriate evidence of this approval.

Sincerely yours,

(ORIG SCD) CMM

CARL C. FRAYWICK
Acting Area Oil and Gas Supervisor

cc:
Area Geologist (ltr. only)
State Land Comm., Santa Fe (ltr. only)
N.M.O.C.C., Santa Fe (ltr. only)
Artesia (w/cy of approved agr.)

REShook:lh

State of New Mexico

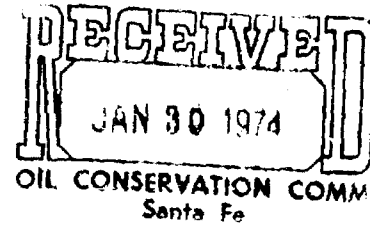


ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands
January 29, 1974

5146
TELEPHONE
305-827-2748



P. O. BOX 9148
SANTA FE, NEW MEXICO

Midwest Oil Corporation
1500 Wilco Building
Midland, Texas 79701

Re: Target Unit
Eddy County, New Mexico

ATTENTION: Mr. F. L. Schatz

Gentlemen:

The Commissioner of Public Lands has this date approved your Target Unit, Eddy County, New Mexico, subject to like approval by the United States Geological Survey.

We are sending the USGS five (5) copies of the Certificate of approval with a copy of our letter. We are also calling Mr. Shook at the USGS advising him of the Commissioner's approval on this unit.

Enclosed is one (1) copy of the Certificate of approval for your records. Please remit an additional Ten (\$10.00) Dollar filing fee on this unit. We have received your Eighty (\$80.00) dollars but the filing fee is Ninety (\$90.00) dollars.

When the United States Geological Survey has approved this unit please advise this office so that we may finish processing the unit and ascertain the effective date.

Very truly yours,

RAY D. GRAHAM, Director
Oil and Gas Division

AJA/EDG/s

encls.

cc: USGS-Roswell, New Mexico
OCC- Santa Fe, New Mexico ✓

Unit Name TARGET UNIT (EXPLORATORY)
Operator MIDWEST OIL CORPORATION
County EDDY

5146 0000

DATE	OCC CASE NO. 5146	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. R-4708	1-30-74	5,120.00	1,280.00	3,840.00	-0-	Yes	5 yrs.
Commissioner	January 18, 1974							
1-29-74								

UNIT AREA

TOWNSHIP 25 SOUTH, RANGE 25 EAST, NMPM

Section 34: S/2

Section 35: All

Section 36: All

TOWNSHIP 26 SOUTH, RANGE 25 EAST, NMPM

Section 1: All

Section 2: All

Section 3: All

Section 10: N/2

Section 11: All

Section 12: All

Unit Name TARGET UNIT (EXPLORATORY)
 Operator MIDWEST OIL CORPORATION
 County EDDY

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
8	L-2645	C.S.	2	26S	25E	NW/4NW/4, S/2NW/4, NE/4SW/4, S/2SW/4, NW/4NE/4, SE/4SE/4,	1-4-74	320.00		Mesa Petroleum Company
9.	L-4503	C.S.	36	25S	25E	A11	1-10-74	640.00		Inexco Oil Company
10.	L-4868-1	C.S.	2	26S	25E	NE/4NW/4, NW/4SW/4, NE/4NE/4, S/2NE/4, N/2SE/4, SW/4SE/4	1-4-74	320.00		H. L. Brown, Jr.

Unit Name TARGET UNIT (EXPLORATORY)
 Operator MIDWEST OIL CORPORATION
 County EDDY

5146

DATE	OCC CASE NO. 5146	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. R-4/28	1-30-74	5,120.00	1,280.00	3,840.00	-0-	Yes	5 yrs.
Commissioner	January 18, 1974							
1-29-74								

UNIT AREA

TOWNSHIP 25 SOUTH, RANGE 25 EAST, N/2M
 Section 34: S/2
 Section 35: A11
 Section 36: A11

TOWNSHIP 26 SOUTH, RANGE 25 EAST, N/2M
 Section 1: A11
 Section 2: A11
 Section 3: A11
 Section 10: N/2
 Section 11: A11
 Section 12: A11

RECEIVED
 4-16-74

Unit Name
Operator
County

TARGET UNIT (EXPLORATORY)
MIDWEST OIL CORPORATION
EDDY

STATE TRACT NO.	LEASE NO.	INST-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
8	L-2645	C.S.	2	26S	25E	NW/4NW/4, S/2NW/4, NE/4SW/4, S/2SW/4, NW/4NE/4, SE/4SE/4,	1-4-74	320.00		Mesa Petroleum Co
9.	L-4503	C.S.	36	25S	25E	All	1-10-74	640.00		Inexo Oil Company
10.	L-4868-1	C.S.	2	26S	25E	NE/4NW/4, NW/4SW/4, NE/4NE/4, S/2NE/4, N/2SE/4, SW/4SE/4	1-4-74	320.00		H. L. Brown, Jr.

TERMINATED
4-16-74
Elh.

State of New Mexico

TELEPHONE
505-827-2748



Commissioner of Public Lands

April 17, 1974

ALEX J. ARMIJO
COMMISSIONER

P. O. Box 1148
SANTA FE, NEW MEXICO

Midwest Oil Corporation
1500 Wilco Building
Midland, Texas 79701

Re: Target Unit Area
TERMINATION
Eddy County, New Mexico

ATTENTION: Mr. Frank L. Sebata

Gentlemen:

We are in receipt of your letter dated April 15, 1974, together with your application whereby you wish to terminate the Target Unit Agreement and Unit Operating Agreement, Eddy County, New Mexico.

As per Section 21 (d) of the unit agreement, the Commissioner of Public Lands has this date given his approval to the termination of the Target Unit Agreement and Operating Agreement, this approval is subject to like approval by the United States Geological Survey.

Enclosed are three (3) Certificates of approval for your files.

Please advise this office when the USGS approves the termination so that we may finish processing the instrument.

Very truly yours,

RAY D. GRAHAM, Director
Oil and Gas Department

AJA/RDG/s

cc: 1.

cc:

USGS-Roswell, New Mexico

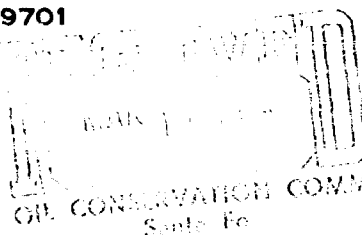
OCC- Santa Fe, New Mexico

MIDWEST OIL CORPORATION

1500 WILCO BUILDING

MIDLAND, TEXAS 79701

March 7, 1974



New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Target Unit
EDDY COUNTY, NEW MEXICO

Gentlemen:

We are enclosing two Consent and Ratification forms to the Target Unit Agreement dated January 1, 1974, to be attached to your copy of the agreement.

Very truly yours,

MIDWEST OIL CORPORATION

Frank L. Schatz
Frank L. Schatz
District Exploration Manager

/rs
encls.

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

DATE: 1-21-74

ADDRESS: 2812 Cinnamon

MIDLAND, TEXAS

H. H. Gaston, Jr.
H. H. Gaston, Jr.

Betty Gaston
(wife of H. H. Gaston, Jr.)

STATE OF Texas X
COUNTY OF Midland X

CONSENT AND RATIFICATION
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IN WITNESS WHEREOF, this instrument is executed by the undersigned on the date set forth opposite the signature.

DATE: January 23, 1974

Joanne P. McPherson
Joanne P. McPherson

ADDRESS: P. O. Box 2086

Casper, Wyoming 82601

STATE OF WYOMING X
COUNTY OF NATRONA X

The foregoing instrument was acknowledged before me this 23rd day of January, 1974, by Joanne P. McPherson

My Commission expires:
February 10, 1975

Edith A. Hammond
Notary Public

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 197__, by _____ of _____ a _____ corporation, on behalf of said corporation.

My Commission expires:

Notary Public

UNIT AGREEMENT
 TARGET UNIT AREA
 EDDY COUNTY, NEW MEXICO

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1 UNIT AGREEMENT
2 FOR THE DEVELOPMENT AND OPERATION
3 OF THE
4 TARGET UNIT AREA
5 COUNTY OF EDDY
6 STATE OF NEW MEXICO
7 NO. _____

8 THIS AGREEMENT entered into as of the 1st day of January,
9 1974, by and between the parties subscribing, ratifying, or
10 consenting hereto, and herein referred to as the "parties
11 hereto".

12 W I T N E S S E T H :

13 WHEREAS, the parties hereto are the owners of working,
14 royalty, or other oil and gas interest in the unit area sub-
15 ject to this agreement; and

16 WHEREAS, the Mineral Leasing Act of February 25, 1920, 41
17 Stat. 437, as amended. 30 U.S.C. Secs. 181 et seq., authorizes
18 Federal Lessees and their representatives to unite with each
19 other, or jointly or separately with others, in collectively
20 adopting and operating a cooperative or unit plan of develop-
21 ment or operation of any oil or gas pool, field, or like area,
22 or any part thereof for the purpose of more properly conserv-
23 ing the natural resources thereof whenever determined and cer-
24 tified by the Secretary of the Interior to be necessary or
25 advisable in the public interest; and

26 WHEREAS, the Commissioner of Public Lands of the State of
27 New Mexico is authorized by an Act of the Legislature (Sec. 7-
28 11-39 N.M.S.A. 1953) to consent to or approve this agreement
29 for and on behalf of the State of New Mexico, insofar

30

1 as it covers and includes lands and mineral interests of the
2 State of New Mexico; and

3 WHEREAS, the Oil Conservation Commission of the State of
4 New Mexico is authorized by an act of the Legislature (Article
5 3, Chapter 65, Vol. 9, Part 2, 1953 Statutes) to approve this
6 agreement and the conservation provisions hereof; and

7 WHEREAS, the parties hereto hold sufficient interests
8 in the Target Unit Area covering the land hereinafter des-
9 cribed to give reasonably effective control of operations
10 therein; and

11 WHEREAS, it is the purpose of the parties hereto to con-
12 serve natural resources, prevent waste, and secure other
13 benefits obtainable through development and operation of the
14 area subject to this agreement under the terms, conditions,
15 and limitations herein set forth;

16 NOW, THEREFORE, in consideration of the premises and the
17 promises herein contained, the parties hereto commit to this
18 agreement their respective interests in the below defined
19 unit area, and agree severally among themselves as follows:

20 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing
21 Act of February 25, 1920, as amended, supra, and all valid
22 pertinent regulations, including operating and unit plan regu-
23 lations, heretofore issued thereunder or valid, pertinent and
24 reasonable regulations hereafter issued thereunder are accept-
25 ed and made a part of this agreement as to Federal lands, pro-
26 vided such regulations are not inconsistent with the terms of
27 this agreement; and as to non-Federal lands, the oil and gas
28 operating regulations in effect as of the effective date hereof
29 governing drilling and producing operations, not inconsistent
30 with the terms hereof or the laws of the State in which the

1 non-Federal land is located, are hereby accepted and made a
2 part of this agreement.

3 2. UNIT AREA. The area specified on the map attached
4 hereto marked Exhibit "A" is hereby designated and recognized
5 as constituting the unit area, containing 5,120.00 acres,
6 more or less.

7 Exhibit "A" shows, in addition to the boundary of the
8 unit area, the boundaries and identity of tracts and leases in
9 said area to the extent known to the Unit Operator. Exhibit
10 "B" attached hereto is a schedule showing to the extent known
11 to the Unit Operator the acreage, percentage, and kind of
12 ownership of oil and gas interests in all land in the unit
13 area. However, nothing herein or in said schedule or map shall
14 be construed as a representation by any party hereto as to the
15 ownership of any interest other than such interest or interests
16 as are shown in said map or schedule as owned by such party.
17 Exhibits "A" and "B" shall be revised by the Unit Operator
18 whenever changes in the unit area render such revision necess-
19 ary, or when requested by the Oil and Gas Supervisor, herein-
20 after referred to as "Supervisor", or when requested by the
21 Commissioner of Public Lands of the State of New Mexico, here-
22 inafter referred to as "Commissioner", and not less than five
23 copies of the revised exhibits shall be filed with the Super-
24 visor, and two copies thereof shall be filed with the Commiss-
25 ioner, and one copy with the New Mexico Oil Conservation Com-
26 mission, hereinafter referred to as "Commission".

27 The above-described unit area shall when practicable be
28 expanded to include therein any additional lands or shall be
29 contracted to exclude lands whenever such expansion or contrac-
30 tion is deemed to be necessary or advisable to conform with the

1 purposes of this agreement. Such expansion or contraction
2 shall be effected in the following manner:

3 (a) Unit Operator, on its own motion or on demand of the
4 Director of the Geological Survey, hereinafter referred to as
5 "Director", or on demand of the Commissioner, after preliminary
6 concurrence by the Director and the Commissioner, shall prepare
7 a notice of proposed expansion or contraction describing the
8 contemplated changes in the boundaries of the unit area, the
9 reasons therefor, and the proposed effective date thereof, pre-
10 ferably the first day of a month subsequent to the date of notice.

11 (b) Said notice shall be delivered to the Supervisor, the
12 Commissioner and the Commission and copies thereof mailed to
13 the last known address of each working interest owner, lessee,
14 and lessor whose interests are affected, advising that 30 days
15 will be allowed for submission to the Unit Operator of any
16 objections.

17 (c) Upon expiration of the 30-day period provided in the
18 preceding item (b) hereof, Unit Operator shall file with the
19 Supervisor, the Commissioner and the Commission evidence of
20 mailing of the notice of expansion or contraction and a copy
21 of any objections thereto which have been filed with the Unit
22 Operator, together with an application in sufficient number,
23 for approval of such expansion or contraction and with appro-
24 priate joinders.

25 (d) After due consideration of all pertinent information,
26 the expansion or contraction shall, upon approval by the Super-
27 visor, the Commissioner and the Commission, become effective
28 as of the date prescribed in the notice thereof.

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

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

1 specified in this subsection 2(e), a single extension of not
2 to exceed 2 years may be accomplished by consent of the owners
3 of 90% of the working interests in the current nonparticipat-
4 ing unitized lands and the owners of 60% of the basic royalty
5 interests (exclusive of the basic royalty interests of the
6 United States) in nonparticipating unitized lands with appro-
7 val of the Director and Commissioner, provided such extension
8 application is submitted to the Director and Commissioner not
9 later than 60 days prior to the expiration of said ten-year
10 period.

11 Any expansion of the unit area pursuant to this section
12 which embraces lands theretofore eliminated pursuant to this
13 subsection 2(e) shall not be considered automatic commitment
14 or recommitment of such lands.

15 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land
16 committed to this agreement shall constitute land referred to
17 herein as "unitized land" or "land subject to this agreement".
18 All oil and gas in any and all formations of the unitized land
19 are unitized under the terms of this agreement and herein are
20 called "unitized substances".

21 4. UNIT OPERATOR. MIDWEST OIL CORPORATION, 1500 Wilco
22 Building, Midland, Texas 79701, is hereby designated as
23 Unit Operator and by signature hereto as Unit Operator
24 agrees and consents to accept the duties and obligations
25 of Unit Operator for the discovery, development, and pro-
26 duction of unitized substances as herein provided. When-
27 ever reference is made herein to the Unit Operator, such
28 reference means the Unit Operator acting in that capacity
29 and not as an owner of interest in unitized substances,
30 and the term "working interest owner" when used herein shall

1 include or refer to Unit Operator as the owner of a working
2 interest when such an interest is owned by it.

3 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Opera-
4 tor shall have the right to resign at any time prior to the
5 establishment of a participating area or areas hereunder, but
6 such resignation shall not become effective so as to release
7 Unit Operator from the duties and obligations of Unit Operator
8 and terminate Unit Operator's rights as such for a period of
9 6 months after notice of intention to resign has been served
10 by Unit Operator on all working interest owners and the Super-
11 visor, the Commissioner and the Commission, and until all wells
12 then drilled hereunder are placed in a satisfactory condition
13 for suspension or abandonment whichever is required by the
14 Supervisor as to Federal lands and by the Commission as to State
15 and privately owned lands, unless a new Unit Operator shall have
16 taken over and assumed the duties and obligations of Unit Oper-
17 ator prior to the expiration of said period.

18 Unit Operator shall have the right to resign in like
19 manner and subject to like limitations as above provided at any
20 time a participating area established hereunder is in existence,
21 but, in all instances of resignation or removal, until a success-
22 or Unit Operator is selected and approved as hereinafter pro-
23 vided, the working interest owners shall be jointly responsible
24 for performance of the duties of Unit Operator, and shall, not
25 later than 30 days before such resignation or removal becomes
26 effective, appoint a common agent to represent them in any action
27 to be taken hereunder.

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

1 The Unit Operator may, upon default or failure in the
2 performance of its duties or obligations hereunder, be sub-
3 ject to removal by the same percentage vote of the owners of
4 working interests as herein provided for the selection of a
5 new Unit Operator. Such removal shall be effective upon
6 notice thereof to the Supervisor and the Commissioner.

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

19 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall
20 tender his or its resignation as Unit Operator or shall be re-
21 moved as hereinabove provided, or a change of Unit Operator is
22 negotiated by working interest owners, the owners of the working
23 interests in the participating area or areas according to their
24 respective acreage interests in such participating area or areas,
25 or, until a participating area shall have been established, the
26 owners of the working interests according to their respective
27 acreage interests in all unitized land, shall by majority vote
28 select a successor Unit Operator: Provided, That, if a majority
29 but less than 75 per cent of the working interests qualified
30 to vote are owned by one party to this agreement, a concurring

1 vote of one or more additional working interest owners shall
2 be required to select a new operator. Such selection shall
3 not become effective until

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

6 (b) the selection shall have been approved by the Super-
7 visor and the Commissioner.

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

11 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.

12 If the Unit Operator is not the sole owner of working interest,
13 costs and expenses incurred by Unit Operator in conducting
14 unit operations hereunder shall be paid and apportioned among
15 and borne by the owners of working interests, all in accord-
16 ance with the agreement or agreements entered into by and be-
17 tween the Unit Operator and the owners of working interests,
18 whether one or more, separately or collectively. Any agreement
19 or agreements entered into between the working interest owners
20 and the Unit Operator as provided in this section, whether
21 one or more, are herein referred to as the "unit operating
22 agreement". Such unit operating agreement shall also provide
23 the manner in which the working interest owners shall be en-
24 titled to receive their respective proportionate and allocated
25 share of the benefits accruing hereto in conformity with their
26 underlying operating agreements, leases or other independent
27 contracts, and such other rights and obligations as between
28 Unit Operator and the working interest owners as may be agreed
29 upon by Unit Operator and the working interest owners; however,
30 no such unit operating agreement shall be deemed either to

1 modify any of the terms and conditions of this unit agreement
2 or to relieve the Unit Operator of any right or obligation
3 established under this unit agreement, and in case of any
4 inconsistency or conflict between this unit agreement and the
5 unit operating agreement, this unit agreement shall govern.

6 Three true copies of any unit operating agreement executed
7 pursuant to this section should be filed with the Supervisor
8 and two true copies with the Commissioner and one true copy
9 with the Commission, prior to approval of this unit agreement.

10 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as
11 otherwise specifically provided herein, the exclusive right,
12 privilege, and duty of exercising any and all rights of the
13 parties hereto which are necessary or convenient for prospect-
14 ing for, producing, storing, allocating, and distributing the
15 unitized substances are hereby delegated to and shall be exer-
16 cised by the Unit Operator as herein provided. Acceptable
17 evidence of title to said rights shall be deposited with said
18 Unit Operator and, together with this agreement, shall consti-
19 tute and define the rights, privileges, and obligations of
20 Unit Operator. Nothing herein, however, shall be construed
21 to transfer title to any land or to any lease or operating
22 agreement, it being understood that under this agreement the
23 Unit Operator, in its capacity as Unit Operator, shall exer-
24 cise the rights of possession and use vested in the parties
25 hereto only for the purposes herein specified.

26 9. DRILLING TO DISCOVERY. Within 6 months after the
27 effective date hereof, the Unit Operator shall begin to drill
28 an adequate test well at a location approved by the Supervisor,
29 if on Federal land, or by the Land Commissioner if on State
30 land, or by the Commission if on fee land, unless on such

1 effective date a well is being drilled conformably with
2 the terms hereof, and thereafter continue such drilling
3 diligently until the Morrow formation of Pennsylvanian Age
4 has been tested, or until at a lesser depth unitized sub-
5 stances shall be discovered which can be produced in paying
6 quantities (to-wit: quantities sufficient to repay the costs
7 of drilling, completing, and producing operations, with a
8 reasonable profit) or the Unit Operator shall, at any time,
9 establish to the satisfaction of the Supervisor, if on
10 Federal land, or the Commissioner if located on State
11 lands, or the Commission if located on fee lands, that
12 further drilling of said well would be unwarranted or im-
13 practicable, provided however, that Unit Operator shall not
14 in any event be required to drill said well to a depth in
15 excess of 12,000 feet. Until the discovery of a deposit
16 of unitized substances in paying quantities is completed
17 to the satisfaction of said Supervisor if on Federal land,
18 or the Commissioner if on State land, or the Commission if
19 on fee land, or until it is reasonably provided that the
20 unitized land is incapable of producing unitized substances
21 in paying quantities in the formations drilled hereunder.
22 Nothing in this section shall be deemed to limit the right
23 of the Unit Operator to resign as provided in Section 5
24 hereof, or as requiring Unit Operator to commence or continue
25 any drilling during the period pending such resignation becom-
26 ing effective in order to comply with the requirements of this
27 section. The Supervisor and Commissioner may modify the drill-
28 ing requirements of this section by granting reasonable exten-
29 sions of time when, in their opinion, such action is warranted.
30 Upon failure to commence any well provided for in this section

1 within the time allowed, including any extension of time grant-
2 ed by the Supervisor and the Commissioner, this agreement will
3 automatically terminate; upon failure to continue drilling
4 diligently any well commenced hereunder, the Supervisor and
5 Commissioner may, after 15 days notice to the Unit Operator,
6 declare this unit agreement terminated.

7 10. SURFACE MANAGEMENT STIPULATION. Nothing in this
8 agreement shall modify the special Federal-lease stipulations
9 relating to surface management, attached to and made a part of,
10 Oil and Gas leases covering lands within the Unit Area.

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

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

1 conservation of the oil and gas resources of the unitized
2 area and shall:

3 (a) specify the number and locations of any wells
4 to be drilled and the proposed order and time for
5 such drilling; and

6 (b) to the extent practicable, specify the operating
7 practices regarded as necessary and advisable for
8 proper conservation of natural resources.

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

12 Plans shall be modified or supplemented when necessary to
13 meet changed conditions or to protect the interests of all
14 parties to this agreement. Reasonable diligence shall be
15 exercised in complying with the obligations of the approved
16 plan of development. The Supervisor and Commissioner are
17 authorized to grant a reasonable extension of the 6-month
18 period herein prescribed for submission of an initial plan of
19 development where such action is justified because of unusual
20 conditions or circumstances. After completion hereunder of a
21 well capable of producing any unitized substances in paying
22 quantities, no further wells, except such as may be necessary
23 to afford protection against operations not under this agree-
24 ment and such as may be specifically approved by the Supervisor
25 and the Commissioner, shall be drilled except in accordance
26 with a plan of development approved as herein provided.

27 12. PARTICIPATION AFTER DISCOVERY. Upon completion of
28 a well capable of producing unitized substances in paying
29 quantities or as soon thereafter as required by the Supervisor
30 and Commissioner, the Unit Operator shall submit for approval

1 by the Supervisor and Commissioner a schedule, based on subdiv-
2 isions of the public land survey or aliquot parts thereof, of
3 all land then regarded reasonably proved to be productive in
4 paying quantities; all lands in said schedule on approval of
5 the Supervisor and Commissioner to constitute a participating
6 area, effective as of the date of completion of such well or
7 the effective date of this unit agreement, whichever is later.
8 The acreages of both Federal and non-Federal lands shall be
9 based upon appropriate computations from the courses and dis-
10 tances shown on the last approved public land survey as of
11 the effective date of each initial participating area. Said
12 schedule shall also set forth the percentage of unitized sub-
13 stances to be allocated as herein provided to each tract in the
14 participating area so established, and shall govern the allo-
15 cation of production commencing with the effective date of the
16 participating area. A separate participating area shall be
17 established for each separate pool or deposit of unitized sub-
18 stances or for any group thereof which is produced as a single
19 pool or zone, and any two or more participating areas so estab-
20 lished may be combined into one, on approval of the Supervisor
21 and the Commissioner. When production from two or more parti-
22 cipating areas, so established, is subsequently found to be
23 from a common pool or deposit said participating areas shall
24 be combined into one effective as of such appropriate date as
25 may be approved or prescribed by the Supervisor and Commissioner.
26 The participating area or areas so established shall be revised
27 from time to time, subject to like approval, to include addit-
28 ional land then regarded as reasonably proved to be productive
29 in paying quantities or necessary for unit operations, or to
30 exclude land then regarded as reasonably proved not to be pro-

1 ductive in paying quantities and the schedule of allocation
2 precentages shall be revised accordingly. The effective date
3 of any revision shall be the first day of the month in which
4 is obtained the knowledge or information on which such re-
5 vision is predicated, provided, however, that a more appro-
6 priate effective date may be used if justified by the Unit
7 Operator and approved by the Supervisor and Commissioner. No
8 land shall be excluded from a participating area on account
9 of depletion of the unitized substances, except that any
10 participating area established under the provisions of this
11 unit agreement shall terminate automatically whenever all
12 completions in the formation on which the participating area
13 is based are abandoned.

14 It is the intent of this section that a participating
15 area shall represent the area known or reasonably estimated to
16 be productive in paying quantities, but, regardless of any
17 revision of the participating area, nothing herein contained
18 shall be construed as requiring any retroactive adjustment for
19 production obtained prior to the effective date of the revision
20 of the participating area.

21 In the absence of agreement at any time between the Unit
22 Operator and the Supervisor and Commissioner as to the proper
23 definition or redefinition of a participating area, or until
24 a participating area has, or areas have, been established as
25 provided herein, the portion of all payments affected thereby
26 shall be impounded in a manner mutually acceptable to the own-
27 ers of working interests and the Supervisor and Commissioner.
28 Royalties due the United States and the State of New Mexico,
29 which shall be determined by the Supervisor for Federal land
30 and the Commissioner for State land and the amount thereof

1 shall be deposited, as directed by the Supervisor and Comm-
2 issioner respectively, to be held as unearned money until a
3 participating area is finally approved and then applied as
4 earned or returned in accordance with a determination of the
5 sum due as Federal and State royalty on the basis of such
6 approved participating area.

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

20 13. ALLOCATION OF PRODUCTION. All unitized substances
21 produced from each participating area established under this
22 agreement, except any part thereof used in conformity with
23 good operating practices within the unitized area for drilling,
24 operating, camp and other production or development purposes,
25 for repressuring or recycling in accordance with a plan of
26 development approved by the Supervisor and Commissioner, or
27 unavoidably lost, shall be deemed to be produced equally on
28 an acreage basis from the several tracts of unitized land of
29 the participating area established for such production and,
30 for the purpose of determining any benefits accruing under

1 this agreement, each such tract of unitized land shall have
2 allocated to it such percentage of said production as the num-
3 ber of acres of such tract included in said participating area
4 bears to the total acres of unitized land in said participating
5 area, except that allocation of production hereunder for pur-
6 poses other than for settlement of the royalty, overriding
7 royalty, or payment out of production obligations of the res-
8 pective working interest owners, shall be on the basis pre-
9 scribed in the unit operating agreement whether in conformity
10 with the basis of allocation herein set forth or otherwise.
11 It is hereby agreed that production of unitized substances
12 from a participating area shall be allocated as provided
13 herein regardless of whether any wells are drilled on any par-
14 ticular part or tract of said participating area. If any gas
15 produced from one participating area is used for repressuring
16 or recycling purposes in another area, the first gas withdrawn
17 from such last mentioned participating area for sale during the
18 life of this agreement shall be considered to be the gas so
19 transferred until an amount equal to that transferred shall be
20 so produced for sale and such gas shall be allocated to the
21 participating area from which initially produced as such area
22 was last defined at the time of such final production.

23 14. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND
24 OR FORMATIONS. Any party hereto owning or controlling the
25 working interest in any unitized land having thereon a regular
26 well location may with the approval of the Supervisor as to
27 Federal land, and the Commissioner as to State land and the
28 Commission as to privately owned land, at such party's sole
29 risk, cost and expense, drill a well to test any formation for
30 which a participating area has not been established or to test

1 any formation for which a participating area has been estab-
2 lished if such location is not within said participating area,
3 unless within 90 days of receipt of notice from said party of
4 his intention to drill the well the Unit Operator elects and
5 commences to drill such a well in like manner as other wells
6 are drilled by the Unit Operator under this agreement.

7 If any well drilled as aforesaid by a working interest
8 owner results in production such that the land upon which it
9 is situated may properly be included in a participating area,
10 such participating area shall be established or enlarged as
11 provided in this agreement and the well shall thereafter be
12 operated by the Unit Operator in accordance with the terms
13 of this agreement and the unit operating agreement.

14 If any well drilled as aforesaid by a working interest
15 owner obtains production in quantities insufficient to justify
16 the inclusion of the land upon which such well is situated in
17 a participating area, such well may be operated and produced
18 by the party drilling the same subject to the conservation
19 requirements of this agreement. The royalties in amount or
20 value of production from any such well shall be paid as speci-
21 fied in the underlying lease and agreements affected.

22 15. ROYALTY SETTLEMENT. The United States and any State
23 and any royalty owner who is entitled to take in kind a share
24 of the substances now unitized hereunder shall hereafter be
25 entitled to the right to take in kind its share of the unitized
26 substances, and the Unit Operator, or the working interest
27 owner in case of the operation of a well by a working interest
28 owner as herein provided for in special cases, shall make de-
29 liveries of such royalty share taken in kind in conformity
30 with the applicable contracts, laws and regulations. Settle-

1 ment for royalty interest not taken in kind shall be made by
2 working interest owners responsible therefor under existing
3 contracts, laws and regulations, or by the Unit Operator, on
4 or before the last day of each month for unitized substances
5 produced during the preceding calendar month; provided, how-
6 ever, that nothing herein contained shall operate to relieve
7 the lessees of any land from their respective lease obligations
8 for the payment of any royalties due under their leases.

9 If gas obtained from lands not subject to this agreement
10 is introduced into any participating area hereunder, for use
11 in repressuring, stimulation of production, or increasing ulti-
12 mate recovery, in conformity with a plan of operations approved
13 by the Supervisor, the Commissioner, and Commission, a like
14 amount of gas, after settlement as hereir provided for any
15 gas transferred from any other participating area and with
16 appropriate deduction for loss from any cause, may be withdrawn
17 from the formation in which the gas is introduced, royalty free
18 as to dry gas, but not as to any products which may be extract-
19 ed therefrom; provided that such withdrawal shall be at such
20 time as may be provided in the approved plan of operations or
21 as may otherwise be consented to by the Supervisor, the Commis-
22 sioner and the Commission as conforming to good petroleum engin-
23 eering practice; and provided further, that such right of with-
24 drawal shall terminate on the termination of this unit agreement.

25 Royalty due the United States shall be computed as provided
26 in the operating regulations and paid in value or delivered in
27 kind as to all unitized substances on the basis of the amounts
28 thereof allocated to unitized Federal land as provided herein
29 at the rate specified in the respective Federal leases, or at
30 such lower rate or rates as may be authorized by law or regu-

1 lation; provided, that for leases on which the royalty rate
2 depends on the daily average production per well, said average
3 production shall be determined in accordance with the operating
4 regulations as though each participating area were a single con-
5 solidated lease.

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

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

21 Rentals on State of New Mexico lands subject to this agree-
22 ment shall be paid at the rates specified in the respective
23 leases.

24 With respect to any lease on non-Federal land containing
25 provisions which would terminate such lease unless drilling
26 operations are commenced upon the land covered thereby within
27 the time therein specified or rentals are paid for the privi-
28 lege of deferring such drilling operations, the rentals required
29 thereby shall, notwithstanding any other provisions of this
30 agreement, be deemed to accrue and become payable during the

1 term thereof as extended by this agreement and until the re-
2 quired drilling operations are commenced upon the land cover-
3 ed thereby or until some portion of such land is included
4 within a participating area.

5 17. CONSERVATION. Operations hereunder and production
6 of unitized substances shall be conducted to provide for the
7 most economical and efficient recovery of said substances
8 without waste, as defined by or pursuant to State or Federal
9 laws or regulations.

10 18. DRAINAGE. The Unit Operator shall take such measures
11 as the Supervisor and Commissioner deem appropriate and adequate
12 to prevent drainage of unitized substances from unitized land
13 by wells on land not subject to this agreement.

14 19. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms,
15 conditions and provisions of all leases, subleases and other
16 contracts relating to exploration, drilling, development or oper-
17 ations for oil or gas on lands committed to this agreement are
18 hereby expressly modified and amended to the extent necessary
19 to make the same conform to the provisions hereof, but other-
20 wise to remain in full force and effect; and the parties hereto
21 hereby consent that the Secretary as to Federal leases and the
22 Commissioner as to State leases shall and each by his approval
23 hereof, or by the approval hereof by their duly authorized re-
24 presentatives, do hereby establish, alter, change or revoke
25 the drilling, producing, rental, minimum royalty and royalty
26 requirements of Federal and State leases committed hereto and
27 the regulations in respect thereto to conform said requirements
28 to the provisions of this agreement, and, without limiting the
29 generality of the foregoing, all leases, subleases, and contracts
30 are particularly modified in accordance with the following:

1 (a) The development and operation of lands subject to
2 this agreement under the terms hereof shall be deemed
3 full performance of all obligations for development and
4 operation with respect to each and every separately owned
5 tract subject to this agreement, regardless of whether
6 there is any development of any particular tract of the
7 unit area.

8 (b) Drilling and producing operations performed hereunder
9 upon any tract of unitized land will be accepted and deem-
10 ed to be performed upon and for the benefit of each and
11 every tract of unitized land, and no lease shall be deem-
12 ed to expire by reason of failure to drill or produce
13 wells situated on the land therein embraced.

14 (c) Suspension of drilling or producing operations on
15 all unitized lands pursuant to direction or consent of the
16 Secretary and Commissioner or their duly authorized repre-
17 sentatives shall be deemed to constitute such suspension
18 pursuant to such direction or consent as to each and every
19 tract of unitized land. A suspension of drilling or pro-
20 ducing operations limited to specified lands shall be
21 applicable only to such lands.

22 (d) Each lease, sublease or contract relating to the ex-
23 ploration, drilling, development or operation for oil or
24 gas of lands other than those of the United States or State
25 of New Mexico committed to this agreement, which, by its
26 terms might expire prior to the termination of this agree-
27 ment, is hereby extended beyond any such term so provided
28 therein so that it shall be continued in full force and
29 effect for and during the term of this agreement.

30 (e) Any Federal lease for a fixed term of twenty (20)

1 years or any renewal thereof or any part of such lease
2 which is made subject to this agreement shall continue
3 in force beyond the term provided therein until the
4 termination hereof. Any other Federal lease committed
5 hereto shall continue in force beyond the term so pro-
6 vided therein or by law as to the land committed so long
7 as such lease remains subject hereto, provided that pro-
8 duction is had in paying quantities under this unit
9 agreement prior to the expiration date of the term of
10 such lease, or in the event actual drilling operations
11 are commenced on unitized lands, in accordance with
12 the provisions of this agreement, prior to the end of
13 the primary term of such lease and are being diligently
14 prosecuted at that time, such lease shall be extended
15 for two years and so long thereafter as oil or gas is
16 produced in paying quantities in accordance with the
17 provisions of the Mineral Leasing Act Revision of 1960.

18 (f) Each sublease or contract relating to the operation
19 and development of unitized substances from lands of the
20 United States committed to this agreement, which by its
21 terms would expire prior to the time at which the under-
22 lying lease, as extended by the immediately preceding
23 paragraph, will expire, is hereby extended beyond any
24 such term so provided therein so that it shall be con-
25 tinued in full force and effect for and during the term
26 of the underlying lease as such lease is herein extended.

27 (g) Any lease embracing lands of the State of New Mex-
28 ico which is made subject to this agreement, shall con-

1 tinue in force beyond the term provided therein as to
2 the lands committed hereto until the termination hereof,
3 subject to the provisions of subsection (c) of Section
4 2 and subsection (i) of this Section 19.

5 (h) The segregation of any Federal lease committed to
6 this agreement is governed by the following provisions
7 in the fourth paragraph of Sec. 17 (j) of the Mineral
8 Leasing Act, as amended by the Act of September 2, 1960
9 (74 Stat. 731-784): "Any (Federal) lease heretofore or
10 hereafter committed to any such (unit) plan embracing
11 lands that are in part within and in part outside of the
12 area covered by any such plan shall be segregated into
13 separate leases as to the lands committed and the lands
14 not committed as of the effective date of unitization:
15 Provided, however, That any such lease as to the nonunit-
16 ized portion shall continue in force and effect for the
17 term thereof but for not less than two years from the
18 date of such segregation and so long thereafter as oil or
19 gas is produced in paying quantities."

20 (i) Any lease embracing lands of the State of New Mexico
21 having only a portion of its lands committed hereto, shall
22 be segregated as to the portion committed and the portion
23 not committed, and the provisions of such lease shall
24 apply separately to such segregated portions commencing
25 as of the effective date hereof; provided, however, not-
26 withstanding any of the provisions of this agreement to
27 the contrary any lease embracing lands of the State of
28 New Mexico having only a portion of its lands committed

1 hereto shall continue in full force and effect beyond
2 the term provided therein as to all lands embraced in
3 such lease, if oil or gas is discovered and is capable
4 of being produced in paying quantities from some part
5 of the lands embraced in such lease at the expiration
6 of the secondary term of such lease; or if, at the ex-
7 piration of the secondary term, the lessee or Unit Oper-
8 ator is then engaged in bona fide drilling or reworking
9 operations on some part of the lands embraced in such
10 lease, the same, as to all lands embraced therein, shall
11 remain in full force and effect so long as such operations
12 are being diligently prosecuted, and if they result in
13 the production of oil or gas, said lease shall continue
14 in full force and effect as to all of the lands embraced
15 therein, so long thereafter as oil or gas in paying quan-
16 tities is being produced from any portion of said lands.

17 (j) Any lease, other than a Federal lease, having only
18 a portion of its lands committed hereto shall be segrega-
19 ted as to the portion committed and the portion not comm-
20 itted, and the provisions of such lease shall apply sepa-
21 rately to such segregated portions commencing as of the
22 effective date hereof. In the event any such lease pro-
23 vides for a lump sum rental payment, such payment shall
24 be prorated between the portions so segregated in pro-
25 portion to the acreage of the respective tracts.

26 20. COVENANTS RUN WITH LAND. The covenants herein shall
27 be construed to be covenants running with the land with respect
28 to the interest of the parties hereto and their successors in
29 interest until this agreement terminates, and any grant, trans-
30 fer, or conveyance of interest in land or leases subject hereto

1 shall be and hereby is conditioned upon the assumption of
2 all privileges and obligations hereunder by the grantee, trans-
3 ferce or other successor in interest. No assignment or trans-
4 fer of any working interest, royalty, or other interest sub-
5 ject hereto shall be binding upon Unit Operator until the first
6 day of the calendar month after Unit Operator is furnished
7 with the original, photostatic, or certified copy of the instru-
8 ment of transfer.

9 21. EFFECTIVE DATE AND TERM. This agreement shall be-
10 come effective upon approval by the Secretary and Commissioner,
11 or their duly authorized representatives and shall terminate
12 five (5) years from said effective date unless:

13 (a) such date of expiration is extended by the Director
14 and Commissioner, or

15 (b) it is reasonably determined prior to the expiration
16 of the fixed term or any extension thereof that the unit-
17 ized land is incapable of production of unitized substances
18 in paying quantities in the formations tested hereunder and
19 after notice of intention to terminate the agreement on
20 such ground is given by the Unit Operator to all parties
21 in interest at their last known addresses, the agreement
22 is terminated with the approval of the Supervisor and the
23 Commissioner, or

24 (c) a valuable discovery of unitized substances has been
25 made or accepted on unitized land during said initial term
26 or any extension thereof, in which event the agreement
27 shall remain in effect for such term and so long as unit-
28 ized land within any participating area established here-
29 under and, should production cease, so long thereafter as
30 diligent operations are in progress for the restoration

1 of production or discovery of new production and so long
2 thereafter as unitized substances so discovered can be
3 produced as aforesaid, or

4 (d) it is terminated as heretofore provided in this
5 agreement. This agreement may be terminated at any time
6 by not less than 75 per centum, on an acreage basis, of
7 the working interest owners signatory hereto, with the
8 approval of the Supervisor and Commissioner; notice of
9 any such approval to be given by the Unit Operator to all
10 parties hereto.

11 22. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION.

12 The Director is hereby vested with authority to alter or modify
13 from time to time in his discretion the quantity and rate of
14 production under this agreement when such quantity and rate is
15 not fixed pursuant to Federal or State law or does not conform
16 to any statewide voluntary conservation or allocation program,
17 which is established, recognized and generally adhered to by
18 the majority of operators in such State, such authority being
19 hereby limited to alteration or modification in the public in-
20 terest, the purpose thereof and the public interest to be served
21 thereby to be stated in the order of alteration or modification.
22 Without regard to the foregoing, the Director is also hereby
23 vested with authority to alter or modify from time to time in
24 his discretion the rate of prospecting and developing in the
25 absence of the specific written approval thereof by the Commis-
26 sioner and to any lands of the State of New Mexico or privately
27 owned lands subject to this agreement as to the quantity and
28 rate of production in the absence of specific written approval
29 thereof by the Commission.

30 Powers in this section vested in the Director shall only

1 be exercised after notice to Unit Operator and opportunity
2 for hearing to be held not less than 15 days from notice.

3 23. CONFLICT OF SUPERVISION. Neither the Unit Operator
4 nor the working interest owners nor any of them shall be sub-
5 ject to any forfeiture, termination or expiration of any rights
6 hereunder or under any leases or contracts subject hereto, or
7 to any penalty or liability on account of delay or failure in
8 whole or in part to comply with any applicable provision there-
9 of to the extent that the Unit Operator, working interest owners
10 or any of them are hindered, delayed or prevented from comply-
11 ing therewith by reason of failure of the Unit Operator to ob-
12 tain in the exercise of due diligence, the concurrence of pro-
13 per representatives of the United States and proper represent-
14 atives of the State of New Mexico in and about any matters or
15 things concerning which it is required herein that such con-
16 currence be obtained. The parties hereto, including the Com-
17 mission, agree that all powers and authority vested in the Com-
18 mission in and by any provisions of this agreement are vested
19 in the Commission and shall be exercised by it pursuant to the
20 provisions of the laws of the State of New Mexico and subject
21 in any case to appeal or judicial review as may now or here-
22 after be provided by the laws of the State of New Mexico.

23 24. APPEARANCES. Unit Operator shall, after notice to
24 other parties affected, have the right to appear for and on
25 behalf of any and all interests affected hereby before the
26 Department of the Interior, the Commissioner of Public Lands
27 of the State of New Mexico and the New Mexico Oil Conservation
28 Commission and to appeal from orders issued under the regula-
29 tions of said Department, the Commission or Commissioner or to
30 apply for relief from any of said regulations or in any pro-

1 ceedings relative to operations before the Department of
2 the Interior, the Commissioner, or Commission, or any other
3 legally constituted authority; provided, however, that any
4 other interested party shall also have the right at his
5 own expense to be heard in any such proceeding.

6 25. NOTICES. All notices, demands or statements re-
7 quired hereunder to be given or rendered to the parties here-
8 to shall be deemed fully given if given in writing and person-
9 ally delivered to the party or sent by postpaid registered or
10 certified mail, addressed to such party or parties at their
11 respective addresses set forth in connection with the sign-
12 atures hereto or to the ratification or consent hereof or to
13 such other address as any such party may have furnished in
14 writing to party sending the notice, demand or statement.

15 26. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agree-
16 ment contained shall be construed as a waiver by any party here-
17 to of the right to assert any legal or constitutional right or
18 defense as to the validity or invalidity of any law of the
19 State wherein said unitized lands are located, or of the United
20 States, or regulations issued thereunder in any way affecting
21 such party, or as a waiver by any such party of any right be-
22 yond his or its authority to waive.

23 27. UNAVOIDABLE DELAY. All obligations under this agree-
24 ment requiring the Unit Operator to commence or continue drill-
25 ing or to operate on or produce unitized substances from any of
26 the lands covered by this agreement shall be suspended while
27 the Unit Operator, despite the exercise of due care and dili-
28 gence, is prevented from complying with such obligations, in
29 whole or in part, by strikes, acts of God, Federal, State or
30 municipal law or agencies, unavoidable accidents, uncontroll-

1 able delays in transportation, inability to obtain necessary
2 materials in open market, or other matters beyond the reason-
3 able control of the Unit Operator whether similar to matters
4 herein enumerated or not. No unit obligation which is suspen-
5 ded under this section shall become due less than thirty (30)
6 days after it has been determined that the suspension is no
7 longer applicable. Determination of creditable "Unavoidable
8 Delay" time shall be made by the Unit Operator subject to
9 approval of the Supervisor and Commissioner.

10 28. NONDISCRIMINATION. In connection with the perfor-
11 mance of work under this agreement, the operator agrees to com-
12 ply with all of the provisions of section 202 (1) to (7) in-
13 clusive of Executive Order 11246 (30 F.R. 12319), which are
14 hereby incorporated by reference in this agreement.

15 29. LOSS OF TITLE. In the event title to any tract of
16 unitized land shall fail and the true owner cannot be induced
17 to join in this unit agreement, such tract shall be automati-
18 cally regarded as not committed hereto and there shall be such
19 readjustment of future costs and benefits as may be required
20 on account of the loss of such title. In the event of a dis-
21 pute as to title to any royalty, working interest or other
22 interests subject thereto, payment or delivery on account
23 thereof may be withheld without liability for interest until
24 the dispute is finally settled; provided, that, as to Federal
25 and State land or leases, no payments of funds due the United
26 States or State of New Mexico should be withheld, but such funds
27 of the United States shall be deposited as directed by the Super-
28 visor and such funds of the State of New Mexico shall be deposi-
29 ted as directed by the Commissioner to be held as unearned money
30 pending final settlement of the title dispute, and then applied

1 as earned or returned in accordance with such final settle-
2 ment.

3 Unit Operator as such is relieved from any responsi-
4 bility for any defect or failure of any title hereunder.

5 30. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner
6 of any substantial interest in a tract within the unit area
7 fails or refuses to subscribe or consent to this agreement,
8 the owner of the working interest in that tract may withdraw
9 said tract from this agreement by written notice delivered to
10 the Supervisor and the Commissioner and the Unit Operator prior
11 to the approval of this agreement by the Supervisor and Com-
12 missioner. Any oil or gas interests in lands within the unit
13 area not committed hereto prior to submission of this agreement
14 for final approval may thereafter be committed hereto by the
15 owner or owners thereof subscribing or consenting to this agree-
16 ment, and, if the interest is a working interest, by the owner
17 of such interest also subscribing to the unit operating agree-
18 ment. After operations are commenced hereunder, the right of
19 subsequent joinder, as provided in this section, by a working
20 interest owner is subject to such requirements or approvals,
21 if any, pertaining to such joinder, as may be provided for in
22 the unit operating agreement. After final approval hereof,
23 joinder by a non-working interest owner must be consented to
24 in writing by the working interest owner committed hereto and
25 responsible for the payment of any benefits that may accrue
26 hereunder in behalf of such non-working interest. A non-
27 working interest may not be committed to this unit agreement
28 unless the corresponding working interest is committed hereto.
29 Joinder to the unit agreement by a working interest owner, at
30 any time, must be accompanied by appropriate joinder to the

1 unit operating agreement, if more than one committed working
2 interest owner is involved, in order for the interest to be
3 regarded as committed to this unit agreement. Except as may
4 otherwise herein be provided, subsequent joinders to this
5 agreement shall be effective as of the first day of the month
6 following the filing with the Supervisor and the Commissioner
7 of duly executed counterparts of all or any papers necessary
8 to establish effective commitment of any tract to this agree-
9 ment unless objection to such joinder is duly made within 60
10 days by the Supervisor, provided, however, that as to State
11 lands all subsequent joinders must be approved by the Com-
12 missioner.

13 31. PROTECTION OF POTASH DEPOSITS. No wells will be
14 drilled for oil or gas at a location on Federal lands which in
15 the opinion of the Supervisor or at a location on State lands
16 which in the opinion of the Commissioner would result in undue
17 waste of potash deposits or constitute a hazard to or unduly
18 interfere with mining operations being conducted for the ex-
19 traction of potash deposits.

20 The drilling or abandonment of any well on unitized land
21 shall be done in accordance with applicable oil and gas oper-
22 ating regulations, including such requirements as to Federal
23 lands as may be prescribed by the Supervisor and as to State
24 lands by the Commissioner, as necessary to prevent the infil-
25 tration of oil, gas or water into formations containing potash
26 deposits or into mines or workings being utilized in the ex-
27 traction of such deposits.

28 Well records and survey plats that an oil and gas lessee
29 of Federal lands must file pursuant to applicable operating
30 regulations (30 CFR Part 221) shall be available for inspection

1 at the Office of the Supervisor to any party holding a potash
2 permit or lease on the Federal land on which the well is sit-
3 uated insofar as such records are pertinent to the mining and
4 protection of potash deposits.

5 32. COUNTERPARTS. This agreement may be executed in any
6 number of counterparts no one of which needs to be executed by
7 all parties or may be ratified or consented to by separate
8 instrument in writing specifically referring hereto and shall
9 be binding upon all those parties who have executed such a
10 counterpart, ratification, or consent hereto with the same force
11 and effect as if all parties had signed the same document and
12 regardless of whether or not it is executed by all other parties
13 owning or claiming an interest in lands within the above de-
14 scribed unit area.

15 33. SURRENDER. Nothing in this agreement shall prohibit
16 the exercise by any working interest owner of the right to
17 surrender vested in such party by any lease, sublease, or
18 operating agreement as to all or any part of the lands covered
19 thereby, provided that each party who will or might acquire such
20 working interest by such surrender or by forfeiture as hereafter
21 set forth, is bound by the terms of this agreement.

22 If as a result of any such surrender the working interest
23 rights as to such lands become vested in any party other than
24 the fee owner of the unitized substances, said party may for-
25 feit such rights and further benefits from operation hereunder
26 as to said land to the party next in the chain of title who
27 shall be and become the owner of such working interest.

28 If as the result of any such surrender or forfeiture
29 working interest rights become vested in the fee owner of the
30 unitized substances, such owner may:

1 (1) Accept those working interest rights subject to this
2 agreement and the unit operating agreement; or

3 (2) Lease the portion of such land as is included in a
4 participating area established hereunder subject to this agree-
5 ment and the unit operating agreement.

6 (3) Provide for the independent operation of any part
7 of such land that are not then included within a participating
8 area established hereunder.

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

22 An appropriate accounting and settlement shall be made
23 for all benefits accruing to or payments and expenditures
24 made or incurred on behalf of such surrender or forfeited
25 working interest subsequent to the date of surrender or for-
26 feiture, and payment of any moneys found to be owing by such
27 an accounting shall be made as between the parties within
28 thirty (30) days. In the event no unit operating agreement
29 is in existence and a mutually acceptable agreement between
30 the proper parties thereto cannot be consummated, the Super-

1 visor may prescribe such reasonable and equitable agreement
2 as he deems warranted under the circumstances.

3 The exercise of any right vested in a working interest
4 owner to reassign such working interest to the party from
5 whom obtained shall be subject to the same conditions as set
6 forth in this section in regard to the exercise of a right to
7 surrender.

8 34. TAXES. The working interest owners shall render
9 and pay for their account and the account of the royalty
10 owners all valid taxes on or measured by the unitized substances
11 in and under or that may be produced, gathered and sold from
12 the land subject to this contract after the effective date of
13 this agreement, or upon the proceeds or net proceeds derived
14 therefrom. The working interest owners on each tract shall and
15 may charge the proper proportion of said taxes to the royalty
16 owners having interests in said tract, and may currently re-
17 tain and deduct sufficient of the unitized substances or der-
18 ivative products, or net proceeds thereof from the allocated
19 share of each royalty owner to secure reimbursement for the
20 taxes so paid. No such taxes shall be charged to the United
21 States or the State of New Mexico or to any lessor who has
22 a contract with his lessee which requires the lessee to pay
23 such taxes.

24 35. NO PARTNERSHIP. It is expressly agreed that the
25 relation of the parties hereto is that of independent con-
26 tractors and nothing in this agreement contained, expressed
27 or implied, nor any operations conducted hereunder, shall
28 create or be deemed to have created a partnership or asso-
29 ciation between the parties hereto or any of them.

30

1 IN WITNESS WHEREOF, the parties hereto have caused this agree- 1
2 ment to be executed and have set opposite their respective names the 2
3 date of execution. 3

4 UNIT OPERATOR AND WORKING INTEREST OWNER 4

5 ATTEST: MIDWEST OIL CORPORATION 5
6 D. Hollifield By R. W. Collins 6
Assistant Secretary Vice President

7 January 11, 1974 1700 Broadway 7
Date Address

8 Denver, Colorado 80202 8

9 STATE OF COLORADO) 9

10 COUNTY OF DENVER) 10

The foregoing instrument was acknowledged before me this
11th day of January 1974, by R. W. Collins
Vice President of MIDWEST OIL CORPORATION, a Nevada
corporation, on behalf of said corporation.

Virginia J. Miller
Notary Public

My commission expires:
January 26, 1974

EXHIBIT "B"
TARGET UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	LEASE NO. AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OR PRODUCTION PAYMENTS	WORKING INTEREST OWNERS AND PERCENTAGE
<u>FEDERAL LANDS</u>							
1	Section 3: All Section 11: NW/4 T-26-S, R-25-E	800	NM-0457116 11-1-75	USA 12.5%	Midwest Oil Corporation - All	None	Midwest Oil Corporation - 100%
2	Section 11: E/2 & SW/4 Section 12: E/2 T-26-S, R-25-E	800	NM-0505103 2-1-74	USA 12.5%	Midwest Oil Corporation - All	R. E. Boyle and wife, Sweetie Boyle - 3% Flag-Redfern Oil Company - 3.25%	Midwest Oil Corporation - 100%
3	Section 12: W/2 T-26-S, R-25-E	320	NM-0538876 5-1-74	USA 12.5%	Midwest Oil Corporation - All	Section 12: W/2 of 5% of 8/8	Midwest Oil Corporation - 100%
4	Section 10: NE/4 T-26-S, R-25-E	160	NM-0555432 12-1-74	USA 12.5%	Midwest Oil Corporation - All	Eagle Royalty and Minerals Co., Inc. - \$750 per acre payable out of 5% of 8/8	Midwest Oil Corporation - 100%
5	Section 34: S/2 Section 35: All T-25-S, R-25-E	960	NM-14759 2-1-82	USA 12.5%	Midwest Oil Corporation - All	Stanley H. Fox - 5%	Midwest Oil Corporation - 100%
6	Section 10: NW/4 T-26-S, R-25-E	160	NM-15293 4-1-82	USA 12.5%	Midwest Oil Corporation - All	Harry Ptaszynski - 3% Joanne P. McPherson - 1%	Midwest Oil Corporation - 100%
7	Section 1: All T-26-S, R-25-E	640	NM-17792 3-1-83	USA 12.5%	Midwest Oil Corporation - All	Reulah R. Leggett and husband, Raymond F. Leggett - 6.25%	Midwest Oil Corporation - 100%

TOTAL 7 tracts Federal Lands - 3840 acres - 75% of Unit Area

EXHIBIT "B"
TARGET UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT

Page 2

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	LEASE NO. AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OR PRODUCTION PAYMENTS	WORKING INTEREST OWNERS AND PERCENTAGE
<u>STATE LANDS</u>							
8	Section 2: NW/4 NW/4, S/2 NW/4, NE/4 SW/4, S/2 SW/4, NW/4 NE/4, & SE/4 SE/4 T-26-S, R-25-E	320	L-2645 3-18-79	State of New Mexico - 12.5%	Mesa Petroleum Company - All	None	Mesa Petroleum Co. - 100%
9	Section 36: All T-25-S, R-25-E	640	L-4503 5-19-80	State of New Mexico - 12.5%	Inexco Oil Company - All	None	Inexco Oil Company - 100%
10	Section 2: NE/4 NW/4, NW/4 SW/4, NE/4 NE/4, S/2 NE/4, N/2 SE/4 & SW/4 SE/4 T-26-S, R-25-E	320	L-4868 9-15-80	State of New Mexico - 12.5%	H. L. Brown, Jr.	H. H. Gaston, Jr. - 2%	H. L. Brown, Jr. - 100%

TOTAL 3 tracts State Lands - 1280 acres - 25% of Unit Area

GRAND TOTAL 10 tracts comprising 5120 acres in Unit Area

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

ATTEST:

MESA PETROLEUM CO. ~~REDACTED~~

By: *Robert D. Carr*
Secretary

By: *J. O. Upchurch*
VICE PRESIDENT *RM*

STATE OF TEXAS

COUNTY OF *Potter*

4th The foregoing instrument was acknowledged before me this day of January, 1974, by *J. O. Upchurch*, *Vice President* of MESA PETROLEUM CO. ~~REDACTED~~, a *Delaware* corporation, on behalf of said corporation.

Virginia L. Bernier
Notary Public

My commission expires:

6-1-75

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

Date: Jan. 4, 1974

H. L. Brown, Jr.

Mary Anne Brown
Mary Anne Brown

STATE OF TEXAS

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 4th day of January, 1974, by H. L. BROWN, JR. & MARY ANNE BROWN

Mary Hathaway
Notary Public

My commission expires:

6/1/75

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

DATE: January 8, 1974

EAGLE ROYALTY AND MINERALS CO., INC.

ADDRESS: 485 Madison Avenue

By Alexander S. Bowers

New York, N.Y.

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this
_____ day of _____, 197____, by _____

My Commission expires: _____

Notary Public

STATE OF New York X
COUNTY OF New York X

The foregoing instrument was acknowledged before me this
8th day of January, 1974, by Alexander S. Bowers,
President of EAGLE ROYALTY AND MINERALS CO., INC.,
a Delaware corporation, on behalf of said corporation.

My Commission expires: _____

Notary Public

OUNA M. WARD
Notary Public, State of New York
No. 31-9531510
Qualified in New York County
Commission Expires March 30, 1974

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

DATE: 1/4/74

ADDRESS: 293 Ridgely Drive

Midland, Texas 79701

Beulah R. Leggett
Beulah R. Leggett

Raymond F. Leggett
Raymond F. Leggett

SS# 461-05-0239

STATE OF TEXAS X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this 4th day of January, 1974, by Beulah R. Leggett and husband, Raymond F. Leggett.

My Commission expires:

6/1/75

Kathryn Morgan
Notary Public

KATHERYN MORGAN - Notary Public

Commission Expires June 1, 1975.

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 197 , by _____ of _____ a _____ corporation, on behalf of said corporation.

My Commission expires:

Notary Public

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

DATE: 12-31-73

SANDIA PRODUCTION COMPANY

ADDRESS: P.O. Box 2431
Santa Fe, N.M. 87501

By Robert N. Enfield

STATE OF New Mexico X
COUNTY OF Santa Fe X

The foregoing instrument was acknowledged before me this 31st day of December, 1973, by Sandia Production Company, a Limited Partnership by its general partner, Robert N. Enfield.

My Commission expires:

Jan 1, 1976

James L. Bunker
Notary Public

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____ of SANDIA PRODUCTION COMPANY, a _____ corporation, on behalf of said corporation.

My Commission expires:

Notary Public

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

ATTEST:

INEXCO OIL COMPANY

By:

Robert E. Gily, Jr. Ass't Sec'y

By:

William G. Goodwin, Vice President

STATE OF TEXAS

COUNTY OF Harris

The foregoing instrument was acknowledged before me this 10th day of January, 1974, by William G. Goodwin, Vice President of INEXCO OIL COMPANY, a Delaware corporation, on behalf of said corporation.

Donna S. Burgess
Notary Public

Donna S. Burgess 460-82-2183

My commission expires:

June 1, 1975

UNIT AGREEMENT
 TARGET UNIT AREA
 EDDY COUNTY, NEW MEXICO

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BEFORE EXAMINER STAMETS
 OIL CONSERVATION COMMISSION
C. J. H. EXHIBIT NO. 3
 CASE NO. 5146
 Submitted by M. J. Dewe
 Hearing Date 1-16-74

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1 as it covers and includes lands and mineral interests of the
2 State of New Mexico; and

3 WHEREAS, the Oil Conservation Commission of the State of
4 New Mexico is authorized by an act of the Legislature (Article
5 3, Chapter 65, Vol. 9, Part 2, 1953 Statutes) to approve this
6 agreement and the conservation provisions hereof; and

7 WHEREAS, the parties hereto hold sufficient interests
8 in the Target Unit Area covering the land hereinafter des-
9 cribed to give reasonably effective control of operations
10 therein; and

11 WHEREAS, it is the purpose of the parties hereto to con-
12 serve natural resources, prevent waste, and secure other
13 benefits obtainable through development and operation of the
14 area subject to this agreement under the terms, conditions,
15 and limitations herein set forth;

16 NOW, THEREFORE, in consideration of the premises and the
17 promises herein contained, the parties hereto commit to this
18 agreement their respective interests in the below defined
19 unit area, and agree severally among themselves as follows:

20 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing
21 Act of February 25, 1920, as amended, supra, and all valid
22 pertinent regulations, including operating and unit plan regu-
23 lations, heretofore issued thereunder or valid, pertinent and
24 reasonable regulations hereafter issued thereunder are accept-
25 ed and made a part of this agreement as to Federal lands, pro-
26 vided such regulations are not inconsistent with the terms of
27 this agreement; and as to non-Federal lands, the oil and gas
28 operating regulations in effect as of the effective date hereof
29 governing drilling and producing operations, not inconsistent
30 with the terms hereof or the laws of the State in which the

1 non-Federal land is located, are hereby accepted and made a
2 part of this agreement.

3 2. UNIT AREA. The area specified on the map attached
4 hereto marked Exhibit "A" is hereby designated and recognized
5 as constituting the unit area, containing 5,120.00 acres,
6 more or less.

7 Exhibit "A" shows, in addition to the boundary of the
8 unit area, the boundaries and identity of tracts and leases in
9 said area to the extent known to the Unit Operator. Exhibit
10 "B" attached hereto is a schedule showing to the extent known
11 to the Unit Operator the acreage, percentage, and kind of
12 ownership of oil and gas interests in all land in the unit
13 area. However, nothing herein or in said schedule or map shall
14 be construed as a representation by any party hereto as to the
15 ownership of any interest other than such interest or interests
16 as are shown in said map or schedule as owned by such party.
17 Exhibits "A" and "B" shall be revised by the Unit Operator
18 whenever changes in the unit area render such revision necess-
19 ary, or when requested by the Oil and Gas Supervisor, herein-
20 after referred to as "Supervisor", or when requested by the
21 Commissioner of Public Lands of the State of New Mexico, here-
22 inafter referred to as "Commissioner", and not less than five
23 copies of the revised exhibits shall be filed with the Super-
24 visor, and two copies thereof shall be filed with the Commiss-
25 ioner, and one copy with the New Mexico Oil Conservation Com-
26 mission, hereinafter referred to as "Commission".

27 The above-described unit area shall when practicable be
28 expanded to include therein any additional lands or shall be
29 contracted to exclude lands whenever such expansion or contrac-
30 tion is deemed to be necessary or advisable to conform with the

1 purposes of this agreement. Such expansion or contraction
2 shall be effected in the following manner:

3 (a) Unit Operator, on its own motion or on demand of the
4 Director of the Geological Survey, hereinafter referred to as
5 "Director", or on demand of the Commissioner, after preliminary
6 concurrence by the Director and the Commissioner, shall prepare
7 a notice of proposed expansion or contraction describing the
8 contemplated changes in the boundaries of the unit area, the
9 reasons therefor, and the proposed effective date thereof, pre-
10 ferably the first day of a month subsequent to the date of notice.

11 (b) Said notice shall be delivered to the Supervisor, the
12 Commissioner and the Commission and copies thereof mailed to
13 the last known address of each working interest owner, lessee,
14 and lessor whose interests are affected, advising that 30 days
15 will be allowed for submission to the Unit Operator of any
16 objections.

17 (c) Upon expiration of the 30-day period provided in the
18 preceding item (b) hereof, Unit Operator shall file with the
19 Supervisor, the Commissioner and the Commission evidence of
20 mailing of the notice of expansion or contraction and a copy
21 of any objections thereto which have been filed with the Unit
22 Operator, together with an application in sufficient number,
23 for approval of such expansion or contraction and with appro-
24 priate joinders.

25 (d) After due consideration of all pertinent information,
26 the expansion or contraction shall, upon approval by the Super-
27 visor, the Commissioner and the Commission, become effective
28 as of the date prescribed in the notice thereof.

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

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

30 If conditions warrant extension of the 10-year period

1 specified in this subsection 2(e), a single extension of not
2 to exceed 2 years may be accomplished by consent of the owners
3 of 90% of the working interests in the current nonparticipat-
4 ing unitized lands and the owners of 60% of the basic royalty
5 interests (exclusive of the basic royalty interests of the
6 United States) in nonparticipating unitized lands with appro-
7 val of the Director and Commissioner, provided such extension
8 application is submitted to the Director and Commissioner not
9 later than 60 days prior to the expiration of said ten-year
10 period.

11 Any expansion of the unit area pursuant to this section
12 which embraces lands theretofore eliminated pursuant to this
13 subsection 2(e) shall not be considered automatic commitment
14 or recommitment of such lands.

15 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land
16 committed to this agreement shall constitute land referred to
17 herein as "unitized land" or "land subject to this agreement".
18 All oil and gas in any and all formations of the unitized land
19 are unitized under the terms of this agreement and herein are
20 called "unitized substances".

21 4. UNIT OPERATOR. MIDWEST OIL CORPORATION, 1500 Wilco
22 Building, Midland, Texas 79701, is hereby designated as
23 Unit Operator and by signature hereto as Unit Operator
24 agrees and consents to accept the duties and obligations
25 of Unit Operator for the discovery, development, and pro-
26 duction of unitized substances as herein provided. When-
27 ever reference is made herein to the Unit Operator, such
28 reference means the Unit Operator acting in that capacity
29 and not as an owner of interest in unitized substances,
30 and the term "working interest owner" when used herein shall

1 include or refer to Unit Operator as the owner of a working
2 interest when such an interest is owned by it.

3 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Opera-
4 tor shall have the right to resign at any time prior to the
5 establishment of a participating area or areas hereunder, but
6 such resignation shall not become effective so as to release
7 Unit Operator from the duties and obligations of Unit Operator
8 and terminate Unit Operator's rights as such for a period of
9 6 months after notice of intention to resign has been served
10 by Unit Operator on all working interest owners and the Super-
11 visor, the Commissioner and the Commission, and until all wells
12 then drilled hereunder are placed in a satisfactory condition
13 for suspension or abandonment whichever is required by the
14 Supervisor as to Federal lands and by the Commission as to State
15 and privately owned lands, unless a new Unit Operator shall have
16 taken over and assumed the duties and obligations of Unit Oper-
17 ator prior to the expiration of said period.

18 Unit Operator shall have the right to resign in like
19 manner and subject to like limitations as above provided at any
20 time a participating area established hereunder is in existence,
21 but, in all instances of resignation or removal, until a success-
22 or Unit Operator is selected and approved as hereinafter pro-
23 vided, the working interest owners shall be jointly responsible
24 for performance of the duties of Unit Operator, and shall, not
25 later than 30 days before such resignation or removal becomes
26 effective, appoint a common agent to represent them in any action
27 to be taken hereunder.

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

1 The Unit Operator may, upon default or failure in the
2 performance of its duties or obligations hereunder, be sub-
3 ject to removal by the same percentage vote of the owners of
4 working interests as herein provided for the selection of a
5 new Unit Operator. Such removal shall be effective upon
6 notice thereof to the Supervisor and the Commissioner.

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

19 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall
20 tender his or its resignation as Unit Operator or shall be re-
21 moved as hereinabove provided, or a change of Unit Operator is
22 negotiated by working interest owners, the owners of the working
23 interests in the participating area or areas according to their
24 respective acreage interests in such participating area or areas,
25 or, until a participating area shall have been established, the
26 owners of the working interests according to their respective
27 acreage interests in all unitized land, shall by majority vote
28 select a successor Unit Operator: Provided, That, if a majority
29 but less than 75 per cent of the working interests qualified
30 to vote are owned by one party to this agreement, a concurring

1 vote of one or more additional working interest owners shall
2 be required to select a new operator. Such selection shall
3 not become effective until

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

6 (b) the selection shall have been approved by the Super-
7 visor and the Commissioner.

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

11 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.

12 If the Unit Operator is not the sole owner of working interest,
13 costs and expenses incurred by Unit Operator in conducting
14 unit operations hereunder shall be paid and apportioned among
15 and borne by the owners of working interests, all in accord-
16 ance with the agreement or agreements entered into by and be-
17 tween the Unit Operator and the owners of working interests,
18 whether one or more, separately or collectively. Any agreement
19 or agreements entered into between the working interest owners
20 and the Unit Operator as provided in this section, whether
21 one or more, are herein referred to as the "unit operating
22 agreement". Such unit operating agreement shall also provide
23 the manner in which the working interest owners shall be en-
24 titled to receive their respective proportionate and allocated
25 share of the benefits accruing hereto in conformity with their
26 underlying operating agreements, leases or other independent
27 contracts, and such other rights and obligations as between
28 Unit Operator and the working interest owners as may be agreed
29 upon by Unit Operator and the working interest owners; however,
30 no such unit operating agreement shall be deemed either to

1 modify any of the terms and conditions of this unit agreement
2 or to relieve the Unit Operator of any right or obligation
3 established under this unit agreement, and in case of any
4 inconsistency or conflict between this unit agreement and the
5 unit operating agreement, this unit agreement shall govern.
6 Three true copies of any unit operating agreement executed
7 pursuant to this section should be filed with the Supervisor
8 and two true copies with the Commissioner and one true copy
9 with the Commission, prior to approval of this unit agreement.

10 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as
11 otherwise specifically provided herein, the exclusive right,
12 privilege, and duty of exercising any and all rights of the
13 parties hereto which are necessary or convenient for prospect-
14 ing for, producing, storing, allocating, and distributing the
15 unitized substances are hereby delegated to and shall be exer-
16 cised by the Unit Operator as herein provided. Acceptable
17 evidence of title to said rights shall be deposited with said
18 Unit Operator and, together with this agreement, shall consti-
19 tute and define the rights, privileges, and obligations of
20 Unit Operator. Nothing herein, however, shall be construed
21 to transfer title to any land or to any lease or operating
22 agreement, it being understood that under this agreement the
23 Unit Operator, in its capacity as Unit Operator, shall exer-
24 cise the rights of possession and use vested in the parties
25 hereto only for the purposes herein specified.

26 9. DRILLING TO DISCOVERY. Within 6 months after the
27 effective date hereof, the Unit Operator shall begin to drill
28 an adequate test well at a location approved by the Supervisor,
29 if on Federal land, or by the Land Commissioner if on State
30 land, or by the Commission if on fee land, unless on such

1 effective date a well is being drilled conformably with
2 the terms hereof, and thereafter continue such drilling
3 diligently until the Morrow formation of Pennsylvanian Age
4 has been tested, or until at a lesser depth unitized sub-
5 stances shall be discovered which can be produced in paying
6 quantities (to-wit: quantities sufficient to repay the costs
7 of drilling, completing, and producing operations, with a
8 reasonable profit) or the Unit Operator shall, at any time,
9 establish to the satisfaction of the Supervisor, if on
10 Federal land, or the Commissioner if located on State
11 lands, or the Commission if located on fee lands, that
12 further drilling of said well would be unwarranted or im-
13 practicable, provided however, that Unit Operator shall not
14 in any event be required to drill said well to a depth in
15 excess of 12,000 feet. Until the discovery of a deposit
16 of unitized substances in paying quantities is completed
17 to the satisfaction of said Supervisor if on Federal land,
18 or the Commissioner if on State land, or the Commission if
19 on fee land, or until it is reasonably provided that the
20 unitized land is incapable of producing unitized substances
21 in paying quantities in the formations drilled hereunder.
22 Nothing in this section shall be deemed to limit the right
23 of the Unit Operator to resign as provided in Section 5
24 hereof, or as requiring Unit Operator to commence or continue
25 any drilling during the period pending such resignation becom-
26 ing effective in order to comply with the requirements of this
27 section. The Supervisor and Commissioner may modify the drill-
28 ing requirements of this section by granting reasonable exten-
29 sions of time when, in their opinion, such action is warranted.
30 Upon failure to commence any well provided for in this section

1 within the time allowed, including any extension of time grant-
2 ed by the Supervisor and the Commissioner, this agreement will
3 automatically terminate; upon failure to continue drilling
4 diligently any well commenced hereunder, the Supervisor and
5 Commissioner may, after 15 days notice to the Unit Operator,
6 declare this unit agreement terminated.

7 10. SURFACE MANAGEMENT STIPULATION. Nothing in this
8 agreement shall modify the special Federal-lease stipulations
9 relating to surface management, attached to and made a part of,
10 Oil and Gas leases covering lands within the Unit Area.

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

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

1 conservation of the oil and gas resources of the unitized
2 area and shall:

3 (a) specify the number and locations of any wells
4 to be drilled and the proposed order and time for
5 such drilling; and

6 (b) to the extent practicable, specify the operating
7 practices regarded as necessary and advisable for
8 proper conservation of natural resources.

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

12 Plans shall be modified or supplemented when necessary to
13 meet changed conditions or to protect the interests of all
14 parties to this agreement. Reasonable diligence shall be
15 exercised in complying with the obligations of the approved
16 plan of development. The Supervisor and Commissioner are
17 authorized to grant a reasonable extension of the 6-month
18 period herein prescribed for submission of an initial plan of
19 development where such action is justified because of unusual
20 conditions or circumstances. After completion hereunder of a
21 well capable of producing any unitized substances in paying
22 quantities, no further wells, except such as may be necessary
23 to afford protection against operations not under this agree-
24 ment and such as may be specifically approved by the Supervisor
25 and the Commissioner, shall be drilled except in accordance
26 with a plan of development approved as herein provided.

27 12. PARTICIPATION AFTER DISCOVERY. Upon completion of
28 a well capable of producing unitized substances in paying
29 quantities or as soon thereafter as required by the Supervisor
30 and Commissioner, the Unit Operator shall submit for approval

1 by the Supervisor and Commissioner a schedule, based on subdiv-
2 isions of the public land survey or aliquot parts thereof, of
3 all land then regarded reasonably proved to be productive in
4 paying quantities; all lands in said schedule on approval of
5 the Supervisor and Commissioner to constitute a participating
6 area, effective as of the date of completion of such well or
7 the effective date of this unit agreement, whichever is later.
8 The acreages of both Federal and non-Federal lands shall be
9 based upon appropriate computations from the courses and dis-
10 tances shown on the last approved public land survey as of
11 the effective date of each initial participating area. Said
12 schedule shall also set forth the percentage of unitized sub-
13 stances to be allocated as herein provided to each tract in the
14 participating area so established, and shall govern the allo-
15 cation of production commencing with the effective date of the
16 participating area. A separate participating area shall be
17 established for each separate pool or deposit of unitized sub-
18 stances or for any group thereof which is produced as a single
19 pool or zone, and any two or more participating areas so estab-
20 lished may be combined into one, on approval of the Supervisor
21 and the Commissioner. When production from two or more parti-
22 cipating areas, so established, is subsequently found to be
23 from a common pool or deposit said participating areas shall
24 be combined into one effective as of such appropriate date as
25 may be approved or prescribed by the Supervisor and Commissioner.
26 The participating area or areas so established shall be revised
27 from time to time, subject to like approval, to include addit-
28 ional land then regarded as reasonably proved to be productive
29 in paying quantities or necessary for unit operations, or to
30 exclude land then regarded as reasonably proved not to be pro-

1 ductive in paying quantities and the schedule of allocation
2 precentages shall be revised accordingly. The effective date
3 of any revision shall be the first day of the month in which
4 is obtained the knowledge or information on which such re-
5 vision is predicated, provided, however, that a more appro-
6 priate effective date may be used if justified by the Unit
7 Operator and approved by the Supervisor and Commissioner. No
8 land shall be excluded from a participating area on account
9 of depletion of the unitized substances, except that any
10 participating area established under the provisions of this
11 unit agreement shall terminate automatically whenever all
12 completions in the formation on which the participating area
13 is based are abandoned.

14 It is the intent of this section that a participating
15 area shall represent the area known or reasonably estimated to
16 be productive in paying quantities, but, regardless of any
17 revision of the participating area, nothing herein contained
18 shall be construed as requiring any retroactive adjustment for
19 production obtained prior to the effective date of the revision
20 of the participating area.

21 In the absence of agreement at any time between the Unit
22 Operator and the Supervisor and Commissioner as to the proper
23 definition or redefinition of a participating area, or until
24 a participating area has, or areas have, been established as
25 provided herein, the portion of all payments affected thereby
26 shall be impounded in a manner mutually acceptable to the own-
27 ers of working interests and the Supervisor and Commissioner.
28 Royalties due the United States and the State of New Mexico,
29 which shall be determined by the Supervisor for Federal land
30 and the Commissioner for State land and the amount thereof

1 shall be deposited, as directed by the Supervisor and Comma-
2 issioner respectively, to be held as unearned money until a
3 participating area is finally approved and then applied as
4 earned or returned in accordance with a determination of the
5 sum due as Federal and State royalty on the basis of such
6 approved participating area.

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

20 13. ALLOCATION OF PRODUCTION. All unitized substances
21 produced from each participating area established under this
22 agreement, except any part thereof used in conformity with
23 good operating practices within the unitized area for drilling,
24 operating, camp and other production or development purposes,
25 for repressuring or recycling in accordance with a plan of
26 development approved by the Supervisor and Commissioner, or
27 unavoidably lost, shall be deemed to be produced equally on
28 an acreage basis from the several tracts of unitized land of
29 the participating area established for such production and,
30 for the purpose of determining any benefits accruing under

1 this agreement, each such tract of unitized land shall have
2 allocated to it such percentage of said production as the num-
3 ber of acres of such tract included in said participating area
4 bears to the total acres of unitized land in said participating
5 area, except that allocation of production hereunder for pur-
6 poses other than for settlement of the royalty, overriding
7 royalty, or payment out of production obligations of the res-
8 pective working interest owners, shall be on the basis pre-
9 scribed in the unit operating agreement whether in conformity
10 with the basis of allocation herein set forth or otherwise.
11 It is hereby agreed that production of unitized substances
12 from a participating area shall be allocated as provided
13 herein regardless of whether any wells are drilled on any par-
14 ticular part or tract of said participating area. If any gas
15 produced from one participating area is used for repressuring
16 or recycling purposes in another area, the first gas withdrawn
17 from such last mentioned participating area for sale during the
18 life of this agreement shall be considered to be the gas so
19 transferred until an amount equal to that transferred shall be
20 so produced for sale and such gas shall be allocated to the
21 participating area from which initially produced as such area
22 was last defined at the time of such final production.

23 14. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND
24 OR FORMATIONS. Any party hereto owning or controlling the
25 working interest in any unitized land having thereon a regular
26 well location may with the approval of the Supervisor as to
27 Federal land, and the Commissioner as to State land and the
28 Commission as to privately owned land, at such party's sole
29 risk, cost and expense, drill a well to test any formation for
30 which a participating area has not been established or to test

1 any formation for which a participating area has been estab-
2 lished if such location is not within said participating area,
3 unless within 90 days of receipt of notice from said party of
4 his intention to drill the well the Unit Operator elects and
5 commences to drill such a well in like manner as other wells
6 are drilled by the Unit Operator under this agreement.

7 If any well drilled as aforesaid by a working interest
8 owner results in production such that the land upon which it
9 is situated may properly be included in a participating area,
10 such participating area shall be established or enlarged as
11 provided in this agreement and the well shall thereafter be
12 operated by the Unit Operator in accordance with the terms
13 of this agreement and the unit operating agreement.

14 If any well drilled as aforesaid by a working interest
15 owner obtains production in quantities insufficient to justify
16 the inclusion of the land upon which such well is situated in
17 a participating area, such well may be operated and produced
18 by the party drilling the same subject to the conservation
19 requirements of this agreement. The royalties in amount or
20 value of production from any such well shall be paid as speci-
21 fied in the underlying lease and agreements affected.

22 15. ROYALTY SETTLEMENT. The United States and any State
23 and any royalty owner who is entitled to take in kind a share
24 of the substances now unitized hereunder shall hereafter be
25 entitled to the right to take in kind its share of the unitized
26 substances, and the Unit Operator, or the working interest
27 owner in case of the operation of a well by a working interest
28 owner as herein provided for in special cases, shall make de-
29 liveries of such royalty share taken in kind in conformity
30 with the applicable contracts, laws and regulations. Settle-

1 ment for royalty interest not taken in kind shall be made by
2 working interest owners responsible therefor under existing
3 contracts, laws and regulations, or by the Unit Operator, on
4 or before the last day of each month for unitized substances
5 produced during the preceding calendar month; provided, how-
6 ever, that nothing herein contained shall operate to relieve
7 the lessees of any land from their respective lease obligations
8 for the payment of any royalties due under their leases.

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

25 Royalty due the United States shall be computed as provided
26 in the operating regulations and paid in value or delivered in
27 kind as to all unitized substances on the basis of the amounts
28 thereof allocated to unitized Federal land as provided herein
29 at the rate specified in the respective Federal leases, or at
30 such lower rate or rates as may be authorized by law or regu-

1 lation; provided, that for leases on which the royalty rate
2 depends on the daily average production per well, said average
3 production shall be determined in accordance with the operating
4 regulations as though each participating area were a single con-
5 solidated lease.

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

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

21 Rentals on State of New Mexico lands subject to this agree-
22 ment shall be paid at the rates specified in the respective
23 leases.

24 With respect to any lease on non-Federal land containing
25 provisions which would terminate such lease unless drilling
26 operations are commenced upon the land covered thereby within
27 the time therein specified or rentals are paid for the privi-
28 lege of deferring such drilling operations, the rentals required
29 thereby shall, notwithstanding any other provisions of this
30 agreement, be deemed to accrue and become payable during the

1 term thereof as extended by this agreement and until the re-
2 quired drilling operations are commenced upon the land cover-
3 ed thereby or until some portion of such land is included
4 within a participating area.

5 17. CONSERVATION. Operations hereunder and production
6 of unitized substances shall be conducted to provide for the
7 most economical and efficient recovery of said substances
8 without waste, as defined by or pursuant to State or Federal
9 laws or regulations.

10 18. DRAINAGE. The Unit Operator shall take such measures
11 as the Supervisor and Commissioner deem appropriate and adequate
12 to prevent drainage of unitized substances from unitized land
13 by wells on land not subject to this agreement.

14 19. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms,
15 conditions and provisions of all leases, subleases and other
16 contracts relating to exploration, drilling, development or oper-
17 ations for oil or gas on lands committed to this agreement are
18 hereby expressly modified and amended to the extent necessary
19 to make the same conform to the provisions hereof, but other-
20 wise to remain in full force and effect; and the parties hereto
21 hereby consent that the Secretary as to Federal leases and the
22 Commissioner as to State leases shall and each by his approval
23 hereof, or by the approval hereof by their duly authorized re-
24 presentatives, do hereby establish, alter, change or revoke
25 the drilling, producing, rental, minimum royalty and royalty
26 requirements of Federal and State leases committed hereto and
27 the regulations in respect thereto to conform said requirements
28 to the provisions of this agreement, and, without limiting the
29 generality of the foregoing, all leases, subleases, and contracts
30 are particularly modified in accordance with the following:

1 (a) The development and operation of lands subject to
2 this agreement under the terms hereof shall be deemed
3 full performance of all obligations for development and
4 operation with respect to each and every separately owned
5 tract subject to this agreement, regardless of whether
6 there is any development of any particular tract of the
7 unit area.

8 (b) Drilling and producing operations performed hereunder
9 upon any tract of unitized land will be accepted and deem-
10 ed to be performed upon and for the benefit of each and
11 every tract of unitized land, and no lease shall be deem-
12 ed to expire by reason of failure to drill or produce
13 wells situated on the land therein embraced.

14 (c) Suspension of drilling or producing operations on
15 all unitized lands pursuant to direction or consent of the
16 Secretary and Commissioner or their duly authorized repre-
17 sentatives shall be deemed to constitute such suspension
18 pursuant to such direction or consent as to each and every
19 tract of unitized land. A suspension of drilling or pro-
20 ducing operations limited to specified lands shall be
21 applicable only to such lands.

22 (d) Each lease, sublease or contract relating to the ex-
23 ploration, drilling, development or operation for oil or
24 gas of lands other than those of the United States or State
25 of New Mexico committed to this agreement, which, by its
26 terms might expire prior to the termination of this agree-
27 ment, is hereby extended beyond any such term so provided
28 therein so that it shall be continued in full force and
29 effect for and during the term of this agreement.

30 (e) Any Federal lease for a fixed term of twenty (20)

1 years or any renewal thereof or any part of such lease
2 which is made subject to this agreement shall continue
3 in force beyond the term provided therein until the
4 termination hereof. Any other Federal lease committed
5 hereto shall continue in force beyond the term so pro-
6 vided therein or by law as to the land committed so long
7 as such lease remains subject hereto, provided that pro-
8 duction is had in paying quantities under this unit
9 agreement prior to the expiration date of the term of
10 such lease, or in the event actual drilling operations
11 are commenced on unitized lands, in accordance with
12 the provisions of this agreement, prior to the end of
13 the primary term of such lease and are being diligently
14 prosecuted at that time, such lease shall be extended
15 for two years and so long thereafter as oil or gas is
16 produced in paying quantities in accordance with the
17 provisions of the Mineral Leasing Act Revision of 1950.

18 (f) Each sublease or contract relating to the operation
19 and development of unitized substances from lands of the
20 United States committed to this agreement, which by its
21 terms would expire prior to the time at which the under-
22 lying lease, as extended by the immediately preceding
23 paragraph, will expire, is hereby extended beyond any
24 such term so provided therein so that it shall be con-
25 tinued in full force and effect for and during the term
26 of the underlying lease as such lease is herein extended.

27 (g) Any lease embracing lands of the State of New Mex-
28 ico which is made subject to this agreement, shall con-

1 tinue in force beyond the term provided therein as to
2 the lands committed hereto until the termination hereof,
3 subject to the provisions of subsection (e) of Section
4 2 and subsection (i) of this Section 19.

5 (h) The segregation of any Federal lease committed to
6 this agreement is governed by the following provisions
7 in the fourth paragraph of Sec. 17 (j) of the Mineral
8 Leasing Act, as amended by the Act of September 2, 1960
9 (74 Stat. 731-784): "Any (Federal) lease heretofore or
10 hereafter committed to any such (unit) plan embracing
11 lands that are in part within and in part outside of the
12 area covered by any such plan shall be segregated into
13 separate leases as to the lands committed and the lands
14 not committed as of the effective date of unitization:
15 Provided, however, That any such lease as to the nonunit-
16 ized portion shall continue in force and effect for the
17 term thereof but for not less than two years from the
18 date of such segregation and so long thereafter as oil or
19 gas is produced in paying quantities."

20 (i) Any lease embracing lands of the State of New Mexico
21 having only a portion of its lands committed hereto, shall
22 be segregated as to the portion committed and the portion
23 not committed, and the provisions of such lease shall
24 apply separately to such segregated portions commencing
25 as of the effective date hereof; provided, however, not-
26 withstanding any of the provisions of this agreement to
27 the contrary any lease embracing lands of the State of
28 New Mexico having only a portion of its lands committed

1 hereto shall continue in full force and effect beyond
2 the term provided therein as to all lands embraced in
3 such lease, if oil or gas is discovered and is capable
4 of being produced in paying quantities from some part
5 of the lands embraced in such lease at the expiration
6 of the secondary term of such lease; or if, at the ex-
7 piration of the secondary term, the lessee or Unit Oper-
8 ator is then engaged in bona fide drilling or reworking
9 operations on some part of the lands embraced in such
10 lease, the same, as to all lands embraced therein, shall
11 remain in full force and effect so long as such operations
12 are being diligently prosecuted, and if they result in
13 the production of oil or gas, said lease shall continue
14 in full force and effect as to all of the lands embraced
15 therein, so long thereafter as oil or gas in paying quan-
16 tities is being produced from any portion of said lands.

17 (j) Any lease, other than a Federal lease, having only
18 a portion of its lands committed hereto shall be segrega-
19 ted as to the portion committed and the portion not comm-
20 itted, and the provisions of such lease shall apply sepa-
21 rately to such segregated portions commencing as of the
22 effective date hereof. In the event any such lease pro-
23 vides for a lump sum rental payment, such payment shall
24 be prorated between the portions so segregated in pro-
25 portion to the acreage of the respective tracts.

26 20. COVENANTS RUN WITH LAND. The covenants herein shall
27 be construed to be covenants running with the land with respect
28 to the interest of the parties hereto and their successors in
29 interest until this agreement terminates, and any grant, trans-
30 fer, or conveyance of interest in land or leases subject hereto

1 shall be and hereby is conditioned upon the assumption of
2 all privileges and obligations hereunder by the grantee, trans-
3 ferree or other successor in interest. No assignment or trans-
4 fer of any working interest, royalty, or other interest sub-
5 ject hereto shall be binding upon Unit Operator until the first
6 day of the calendar month after Unit Operator is furnished
7 with the original, photostatic, or certified copy of the instru-
8 ment of transfer.

9 21. EFFECTIVE DATE AND TERM. This agreement shall be-
10 come effective upon approval by the Secretary and Commissioner,
11 or their duly authorized representatives and shall terminate
12 five (5) years from said effective date unless:

13 (a) such date of expiration is extended by the Director
14 and Commissioner, or

15 (b) it is reasonably determined prior to the expiration
16 of the fixed term or any extension thereof that the unit-
17 ized land is incapable of production of unitized substances
18 in paying quantities in the formations tested hereunder and
19 after notice of intention to terminate the agreement on
20 such ground is given by the Unit Operator to all parties
21 in interest at their last known addresses, the agreement
22 is terminated with the approval of the Supervisor and the
23 Commissioner, or

24 (c) a valuable discovery of unitized substances has been
25 made or accepted on unitized land during said initial term
26 or any extension thereof, in which event the agreement
27 shall remain in effect for such term and so long as unit-
28 ized land within any participating area established here-
29 under and, should production cease, so long thereafter as
30 diligent operations are in progress for the restoration

1 of production or discovery of new production and so long
2 thereafter as unitized substances so discovered can be
3 produced as aforesaid, or

4 (d) it is terminated as heretofore provided in this
5 agreement. This agreement may be terminated at any time
6 by not less than 75 per centum, on an acreage basis, of
7 the working interest owners signatory hereto, with the
8 approval of the Supervisor and Commissioner; notice of
9 any such approval to be given by the Unit Operator to all
10 parties hereto.

11 22. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION.

12 The Director is hereby vested with authority to alter or modify
13 from time to time in his discretion the quantity and rate of
14 production under this agreement when such quantity and rate is
15 not fixed pursuant to Federal or State law or does not conform
16 to any statewide voluntary conservation or allocation program,
17 which is established, recognized and generally adhered to by
18 the majority of operators in such State, such authority being
19 hereby limited to alteration or modification in the public in-
20 terest, the purpose thereof and the public interest to be served
21 thereby to be stated in the order of alteration or modification.
22 Without regard to the foregoing, the Director is also hereby
23 vested with authority to alter or modify from time to time in
24 his discretion the rate of prospecting and developing in the
25 absence of the specific written approval thereof by the Commis-
26 sioner and to any lands of the State of New Mexico or privately
27 owned lands subject to this agreement as to the quantity and
28 rate of production in the absence of specific written approval
29 thereof by the Commission.

30 Powers in this section vested in the Director shall only

1 be exercised after notice to Unit Operator and opportunity
2 for hearing to be held not less than 15 days from notice.

3 23. CONFLICT OF SUPERVISION. Neither the Unit Operator
4 nor the working interest owners nor any of them shall be sub-
5 ject to any forfeiture, termination or expiration of any rights
6 hereunder or under any leases or contracts subject hereto, or
7 to any penalty or liability on account of delay or failure in
8 whole or in part to comply with any applicable provision there-
9 of to the extent that the Unit Operator, working interest owners
10 or any of them are hindered, delayed or prevented from comply-
11 ing therewith by reason of failure of the Unit Operator to ob-
12 tain in the exercise of due diligence, the concurrence of pro-
13 per representatives of the United States and proper represent-
14 atives of the State of New Mexico in and about any matters or
15 things concerning which it is required herein that such con-
16 currence be obtained. The parties hereto, including the Com-
17 mission, agree that all powers and authority vested in the Com-
18 mission in and by any provisions of this agreement are vested
19 in the Commission and shall be exercised by it pursuant to the
20 provisions of the laws of the State of New Mexico and subject
21 in any case to appeal or judicial review as may now or here-
22 after be provided by the laws of the State of New Mexico.

23 24. APPEARANCES. Unit Operator shall, after notice to
24 other parties affected, have the right to appear for and on
25 behalf of any and all interests affected hereby before the
26 Department of the Interior, the Commissioner of Public Lands
27 of the State of New Mexico and the New Mexico Oil Conservation
28 Commission and to appeal from orders issued under the regula-
29 tions of said Department, the Commission or Commissioner or to
30 apply for relief from any of said regulations or in any pro-

1 ceedings relative to operations before the Department of
2 the Interior, the Commissioner, or Commission, or any other
3 legally constituted authority; provided, however, that any
4 other interested party shall also have the right at his
5 own expense to be heard in any such proceeding.

6 25. NOTICES. All notices, demands or statements re-
7 quired hereunder to be given or rendered to the parties here-
8 to shall be deemed fully given if given in writing and person-
9 ally delivered to the party or sent by postpaid registered or
10 certified mail, addressed to such party or parties at their
11 respective addresses set forth in connection with the sign-
12 atures hereto or to the ratification or consent hereof or to
13 such other address as any such party may have furnished in
14 writing to party sending the notice, demand or statement.

15 26. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agree-
16 ment contained shall be construed as a waiver by any party here-
17 to of the right to assert any legal or constitutional right or
18 defense as to the validity or invalidity of any law of the
19 State wherein said unitized lands are located, or of the United
20 States, or regulations issued thereunder in any way affecting
21 such party, or as a waiver by any such party of any right be-
22 yond his or its authority to waive.

23 27. UNAVOIDABLE DELAY. All obligations under this agree-
24 ment requiring the Unit Operator to commence or continue drill-
25 ing or to operate on or produce unitized substances from any of
26 the lands covered by this agreement shall be suspended while
27 the Unit Operator, despite the exercise of due care and dili-
28 gence, is prevented from complying with such obligations, in
29 whole or in part, by strikes, acts of God, Federal, State or
30 municipal law or agencies, unavoidable accidents, uncontroll-

1 able delays in transportation, inability to obtain necessary
2 materials in open market, or other matters beyond the reason-
3 able control of the Unit Operator whether similar to matters
4 herein enumerated or not. No unit obligation which is suspen-
5 ded under this section shall become due less than thirty (30)
6 days after it has been determined that the suspension is no
7 longer applicable. Determination of creditable "Unavoidable
8 Delay" time shall be made by the Unit Operator subject to
9 approval of the Supervisor and Commissioner.

10 28. NONDISCRIMINATION. In connection with the perfor-
11 mance of work under this agreement, the operator agrees to com-
12 ply with all of the provisions of section 202 (1) to (7) in-
13 clusive of Executive Order 11246 (30 F.R. 12319), which are
14 hereby incorporated by reference in this agreement.

15 29. LOSS OF TITLE. In the event title to any tract of
16 unitized land shall fail and the true owner cannot be induced
17 to join in this unit agreement, such tract shall be automati-
18 cally regarded as not committed hereto and there shall be such
19 readjustment of future costs and benefits as may be required
20 on account of the loss of such title. In the event of a dis-
21 pute as to title to any royalty, working interest or other
22 interests subject thereto, payment or delivery on account
23 thereof may be withheld without liability for interest until
24 the dispute is finally settled; provided, that, as to Federal
25 and State land or leases, no payments of funds due the United
26 States or State of New Mexico should be withheld, but such funds
27 of the United States shall be deposited as directed by the Super-
28 visor and such funds of the State of New Mexico shall be deposi-
29 ted as directed by the Commissioner to be held as unearned money
30 pending final settlement of the title dispute, and then applied

1 as earned or returned in accordance with such final settle-
2 ment.

3 Unit Operator as such is relieved from any responsi-
4 bility for any defect or failure of any title hereunder.

5 30. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner
6 of any substantial interest in a tract within the unit area
7 fails or refuses to subscribe or consent to this agreement,
8 the owner of the working interest in that tract may withdraw
9 said tract from this agreement by written notice delivered to
10 the Supervisor and the Commissioner and the Unit Operator prior
11 to the approval of this agreement by the Supervisor and Com-
12 missioner. Any oil or gas interests in lands within the unit
13 area not committed hereto prior to submission of this agreement
14 for final approval may thereafter be committed hereto by the
15 owner or owners thereof subscribing or consenting to this agree-
16 ment, and, if the interest is a working interest, by the owner
17 of such interest also subscribing to the unit operating agree-
18 ment. After operations are commenced hereunder, the right of
19 subsequent joinder, as provided in this section, by a working
20 interest owner is subject to such requirements or approvals,
21 if any, pertaining to such joinder, as may be provided for in
22 the unit operating agreement. After final approval hereof,
23 joinder by a non-working interest owner must be consented to
24 in writing by the working interest owner committed hereto and
25 responsible for the payment of any benefits that may accrue
26 hereunder in behalf of such non-working interest. A non-
27 working interest may not be committed to this unit agreement
28 unless the corresponding working interest is committed hereto.
29 Joinder to the unit agreement by a working interest owner, at
30 any time, must be accompanied by appropriate joinder to the

1 unit operating agreement, if more than one committed working
2 interest owner is involved, in order for the interest to be
3 regarded as committed to this unit agreement. Except as may
4 otherwise herein be provided, subsequent joinders to this
5 agreement shall be effective as of the first day of the month
6 following the filing with the Supervisor and the Commissioner
7 of duly executed counterparts of all or any papers necessary
8 to establish effective commitment of any tract to this agree-
9 ment unless objection to such joinder is duly made within 60
10 days by the Supervisor, provided, however, that as to State
11 lands all subsequent joinders must be approved by the Com-
12 missioner.

13 31. PROTECTION OF POTASH DEPOSITS. No wells will be
14 drilled for oil or gas at a location on Federal lands which in
15 the opinion of the Supervisor or at a location on State lands
16 which in the opinion of the Commissioner would result in undue
17 waste of potash deposits or constitute a hazard to or unduly
18 interfere with mining operations being conducted for the ex-
19 traction of potash deposits.

20 The drilling or abandonment of any well on unitized land
21 shall be done in accordance with applicable oil and gas oper-
22 ating regulations, including such requirements as to Federal
23 lands as may be prescribed by the Supervisor and as to State
24 lands by the Commissioner, as necessary to prevent the infil-
25 tration of oil, gas or water into formations containing potash
26 deposits or into mines or workings being utilized in the ex-
27 traction of such deposits.

28 Well records and survey plats that an oil and gas lessee
29 of Federal lands must file pursuant to applicable operating
30 regulations (30 CFR Part 221) shall be available for inspection

1 at the Office of the Supervisor to any party holding a potash
2 permit or lease on the Federal land on which the well is sit-
3 uated insofar as such records are pertinent to the mining and
4 protection of potash deposits.

5 32. COUNTERPARTS. This agreement may be executed in any
6 number of counterparts no one of which needs to be executed by
7 all parties or may be ratified or consented to by separate
8 instrument in writing specifically referring hereto and shall
9 be binding upon all those parties who have executed such a
10 counterpart, ratification, or consent hereto with the same force
11 and effect as if all parties had signed the same document and
12 regardless of whether or not it is executed by all other parties
13 owning or claiming an interest in lands within the above de-
14 scribed unit area.

15 33. SURRENDER. Nothing in this agreement shall prohibit
16 the exercise by any working interest owner of the right to
17 surrender vested in such party by any lease, sublease, or
18 operating agreement as to all or any part of the lands covered
19 thereby, provided that each party who will or might acquire such
20 working interest by such surrender or by forfeiture as hereafter
21 set forth, is bound by the terms of this agreement.

22 If as a result of any such surrender the working interest
23 rights as to such lands become vested in any party other than
24 the fee owner of the unitized substances, said party may for-
25 feit such rights and further benefits from operation hereunder
26 as to said land to the party next in the chain of title who
27 shall be and become the owner of such working interest.

28 If as the result of any such surrender or forfeiture
29 working interest rights become vested in the fee owner of the
30 unitized substances, such owner may:

1 (1) Accept those working interest rights subject to this
2 agreement and the unit operating agreement; or

3 (2) Lease the portion of such land as is included in a
4 participating area established hereunder subject to this agree-
5 ment and the unit operating agreement.

6 (3) Provide for the independent operation of any part
7 of such land that are not then included within a participating
8 area established hereunder.

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

22 An appropriate accounting and settlement shall be made
23 for all benefits accruing to or payments and expenditures
24 made or incurred on behalf of such surrender or forfeited
25 working interest subsequent to the date of surrender or for-
26 feiture, and payment of any moneys found to be owing by such
27 an accounting shall be made as between the parties within
28 thirty (30) days. In the event no unit operating agreement
29 is in existence and a mutually acceptable agreement between
30 the proper parties thereto cannot be consummated, the Super-

1 visor may prescribe such reasonable and equitable agreement
2 as he deems warranted under the circumstances.

3 The exercise of any right vested in a working interest
4 owner to reassign such working interest to the party from
5 whom obtained shall be subject to the same conditions as set
6 forth in this section in regard to the exercise of a right to
7 surrender.

8 34. TAXES. The working interest owners shall render
9 and pay for their account and the account of the royalty
10 owners all valid taxes on or measured by the unitized substances
11 in and under or that may be produced, gathered and sold from
12 the land subject to this contract after the effective date of
13 this agreement, or upon the proceeds or net proceeds derived
14 therefrom. The working interest owners on each tract shall and
15 may charge the proper proportion of said taxes to the royalty
16 owners having interests in said tract, and may currently re-
17 tain and deduct sufficient of the unitized substances or der-
18 ivative products, or net proceeds thereof from the allocated
19 share of each royalty owner to secure reimbursement for the
20 taxes so paid. No such taxes shall be charged to the United
21 States or the State of New Mexico or to any lessor who has
22 a contract with his lessee which requires the lessee to pay
23 such taxes.

24 35. NO PARTNERSHIP. It is expressly agreed that the
25 relation of the parties hereto is that of independent con-
26 tractors and nothing in this agreement contained, expressed
27 or implied, nor any operations conducted hereunder, shall
28 create or be deemed to have created a partnership or asso-
29 ciation between the parties hereto or any of them.

30

1 IN WITNESS WHEREOF, the parties hereto have caused this agree- 1
2 ment to be executed and have set opposite their respective names the 2
3 date of execution. 3

4 UNIT OPERATOR AND WORKING INTEREST OWNER 4

5 ATTEST: MIDWEST OIL CORPORATION 5
6 *D. Hollifield* By *R. W. Collins* 6
Assistant Secretary Vice President

7 January 11, 1974 1700 Broadway 7
Date Address

8 Denver, Colorado 80202 8

9 STATE OF COLORADO) 9

10 COUNTY OF DENVER) 10

The foregoing instrument was acknowledged before me this
11th day of January, 1974, by R. W. Collins,
Vice President of MIDWEST OIL CORPORATION, a Nevada
corporation, on behalf of said corporation.

Virginia J. Quinn
Notary Public

My commission expires:

January 26, 1974

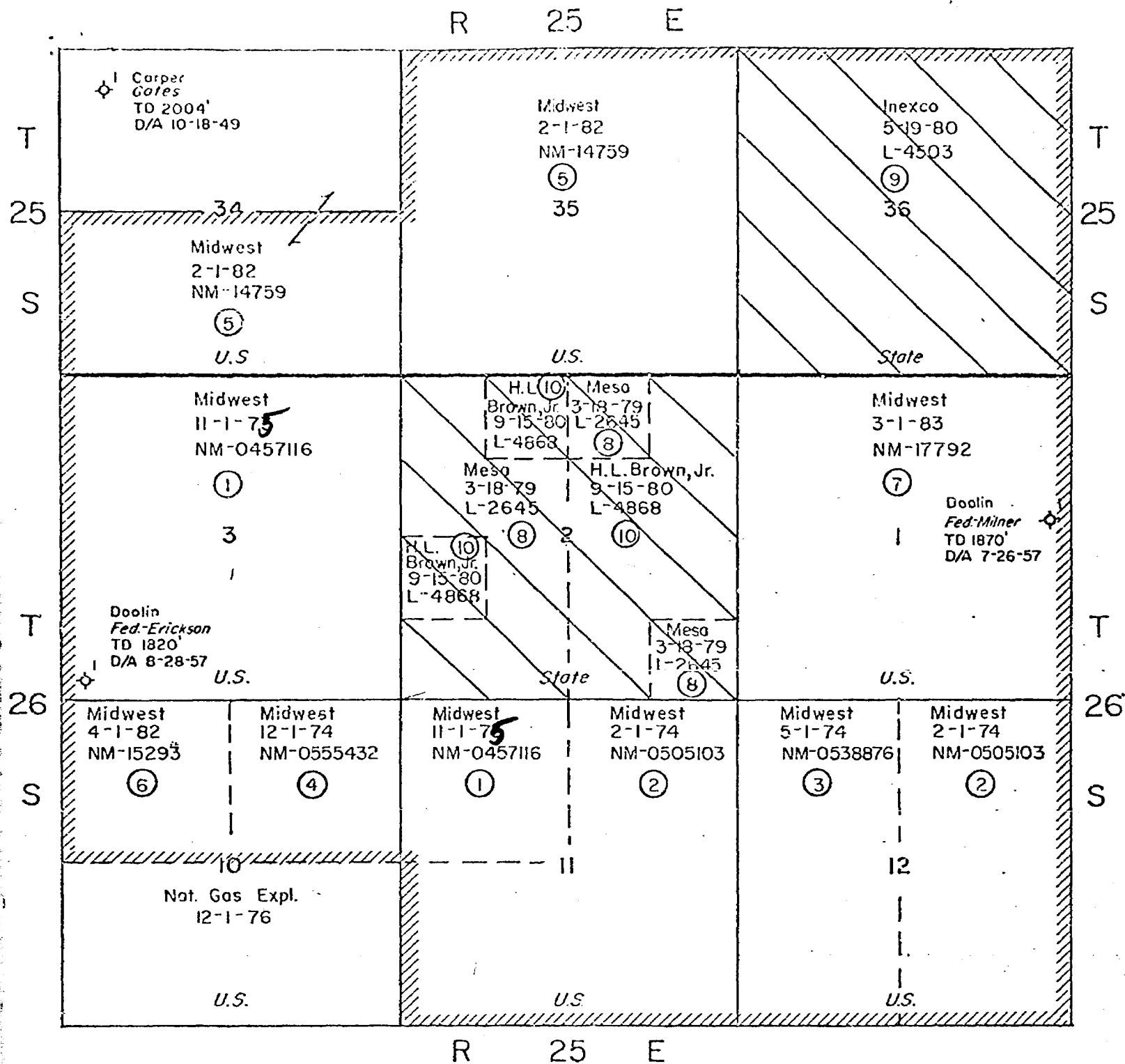


EXHIBIT "B"

TARGET UNIT AREA

EDDY COUNTY, NEW MEXICO

FEDERAL LANDS

TOTAL 7 tracts Federal Lands - 3840 acres - 75% of Unit Area

EXHIBIT "B"
 TARGET UNIT AREA
 EDDY COUNTY, NEW MEXICO

Page 2

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	LEASE NO. AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OR PRODUCTION PAYMENTS	WORKING INTEREST OWNERS AND PERCENTAGE
<u>STATE LANDS</u>							
8	Section 2: NW/4 NW/4, S/2 NW/4, NE/4 SW/4, S/2 SW/4, NW/4 NE/4, & SE/4 SE/4 T-26-S, R-25-E	320	L-2645 3-18-79	State of New Mexico - 12.5%	Mesa Petroleum Company - All	None	Mesa Petroleum Co. - 100%
9	Section 36: All T-25-S, R-25-E	640	L-4503 5-19-80	State of New Mexico - 12.5%	Inexco Oil Company - All	None	Inexco Oil Company - 100%
10	Section 2: NE/4 NW/4, NW/4 SW/4, NE/4 NE/4, S/2 NE/4, N/2 SE/4 & SW/4 SE/4 T-26-S, R-25-E	320	L-4868 9-15-80	State of New Mexico - 12.5%	H. L. Brown, Jr. - All	H. H. Gaston, Jr. - 2%	H. L. Brown, Jr. - 100%

TOTAL 3 tracts State Lands - 1280 acres - 25% of Unit Area
 GRAND TOTAL 10 tracts comprising 5120 acres in Unit Area

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

ATTEST:

MESA PETROLEUM CO. 


BY: 

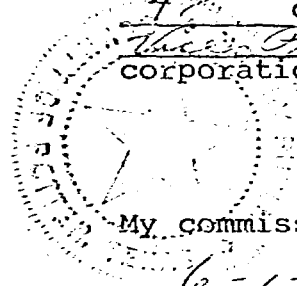
Secretary

BY: 
VICE PRESIDENT 

STATE OF TEXAS

COUNTY OF Potter

^{4th} The foregoing instrument was acknowledged before me this day of January, 1974, by J. O. Upchurch, President of MESA PETROLEUM CO. , a Delaware corporation, on behalf of said corporation.

 My commission expires:

6-1-75

Virginia L. Bernier
Notary Public

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

Date:

Jan. 4, 1974

H. L. Brown, Jr.

Mary Anne Brown
Mary Anne Brown

STATE OF TEXAS

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 4th day of January, 1974, by H. L. BROWN, JR. & MARY ANNE BROWN

My commission expires:

6/1/75

Mary Hathaway
Notary Public

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

DATE: January 8, 1974
ADDRESS: 485 Madison Avenue
New York, N.Y.

EAGLE ROYALTY AND MINERALS CO., INC.

By Alexander S. Bowers

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this
_____ day of _____, 197____, by _____

My Commission expires: _____ Notary Public

STATE OF New York X
COUNTY OF New York X

The foregoing instrument was acknowledged before me this
8th day of January, 1974, by Alexander S. Bowers,
President of EAGLE ROYALTY AND MINERALS CO., INC.,
a Delaware corporation, on behalf of said corporation.

My Commission expires: _____ Notary Public

OUNA M. WARD
Notary Public, State of New York
No. 319531510
Qualified in New York County
Commission Expires March 30, 19____ 74

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

DATE: 1/4/74
ADDRESS: 295 Ridgley Drive
Midland, Texas 79701

Beulah R. Leggett
Beulah R. Leggett
Raymond F. Leggett
Raymond F. Leggett
SS# 461-05-0239

STATE OF TEXAS X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this 4th day of January, 1974, by Beulah R. Leggett and husband, Raymond F. Leggett.

My Commission expires:
6/1/75

Kathryn Morgan
Notary Public KATHRYN MORGAN - Notary Public
Commission Expires June 1, 1975

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____ of _____ a _____ corporation, on behalf of said corporation.

My Commission expires:

Notary Public

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

DATE: 12-31-73

SANDIA PRODUCTION COMPANY

ADDRESS: P.O. Box 2431
Santa Fe, N.M. 87501

By Robert N. Enfield

STATE OF New Mexico X
COUNTY OF Santa Fe X

The foregoing instrument was acknowledged before me this 31st day of December, 1973, by Sandia Production Company, a Limited Partnership by its general partner, Robert N. Enfield.

My Commission expires: Jan 1, 1976

James L. Bess
Notary Public

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____ of SANDIA PRODUCTION COMPANY, a _____ corporation, on behalf of said corporation.

My Commission expires: _____

Notary Public

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

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Target Unit Area embracing lands situated in Eddy County, New Mexico, which is dated the 1st day of January, 1974, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Target Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

ATTEST:

INEXCO OIL COMPANY

By:

Robert E. Gild, Jr. Ass't Sec'y

By:

William G. Goodwin, Vice President

STATE OF TEXAS

COUNTY OF Harris

The foregoing instrument was acknowledged before me this 10th day of January, 1974, by William G. Goodwin, Vice President of INEXCO OIL COMPANY, a Delaware corporation, on behalf of said corporation.

Donna S. Burgess
Notary Public

Donna S. Burgess 460-82-2183

My commission expires:

June 1, 1975

5146
Unit Approve

BZL

DRAFT

dr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 5146

Order No. R-4708

APPLICATION OF MIDWEST OIL CORPORATION
FOR APPROVAL OF THE TARGET
UNIT AGREEMENT, EDDY, COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on
January 16, 1964, at Santa Fe, New Mexico, before Examiner
Richard L. Stamets.

NOW, on this _____ day of January, 1964, the Commission,
a quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

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

(2) That the applicant, Midwest Oil Corporation,
seeks approval of the Target Unit Agreement
State, and
covering 5120 acres, more or less, of Federal lands
~~and~~
described as follows:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 25 SOUTH, RANGE 25 EAST, NMPM

Section 34: S/2
Section 35: All
Section 36: All

TOWNSHIP 26 SOUTH, RANGE 25 EAST, NMPM

Section 1: All
Section 2: All
Section 3: All
Section 10: N/2
Section 11: All
Section 12: All

(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

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

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

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

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

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

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

DOCKET: EXAMINER HEARING - WEDNESDAY - JANUARY 16, 1974

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

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

- ALLOWABLE: (1) Consideration of the allowable production of gas for February, 1974, from fifteen prorated pools in Lea, Eddy, Roosevelt and Chaves Counties, New Mexico;
- (2) Consideration of the allowable production of gas from nine prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for February, 1974.

CASE 5110: (Continued from the November 15, 1973, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider extending the horizontal limits of the Washington Ranch-Morrow Gas Pool, Eddy County, New Mexico, to include the S/2 of Section 28, Township 25 South, Range 24 East.

Also to be considered will be the institution of gas prorationing in said pool to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool.

CASE 5111: (Continued from the November 15, 1973, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider extending the horizontal limits of the Burton Flats-Morrow Gas Pool, Eddy County, New Mexico, to include the S/2 of Section 34, Township 20 South, Range 28 East, and the N/2 of Sections 8 and 9, and all of Section 10, Township 21 South, Range 27 East.

Also to be considered will be the institution of gas prorationing in said pool to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool.

CASE 5112: (Continued from the November 15, 1973, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider extending the horizontal limits of the Burton Flats-Strawn Gas Pool, Eddy County, New Mexico, to include all of Section 10, Township 21 South, Range 27 East.

(Case 5112 continued from Page 1)

Also to be considered will be the institution of gas prorationing in said pool to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool.

CASE 5113: (Continued from the November 15, 1973, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the institution of gas prorationing in the Burton Flats-Atoka Gas Pool, Eddy County, New Mexico, and to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool.

CASE 5124: (Continued from the November 28, 1973, Examiner Hearing)

Application of Belco Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying the S/2 of Section 30, Township 20 South, Range 33 East, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 660 feet from the South line and 1300 feet from the East line of said Section 30. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5143: Application of El Paso Natural Gas Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its proposed Rocky Arroyo "D" Com. Well No. 2 in the center of Unit L of Section 4, Township 22 South, Range 22 East, Rocky Arroyo-Morrow Gas Pool, Eddy County, New Mexico, the S/2 of said Section 4 to be dedicated to the well.

CASE 5144: Application of Depco, Inc. for two waterflood projects, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute two waterflood projects by the injection of water into the Grayburg-San Andres formation through six wells located on applicant's State 647 lease in Sections 31 and 32, Township 17 South, Range 28 East, Artesia Pool, Eddy County, New Mexico, and through one well on the Kersey and Company Ramapo "A" Lease in said Section 32.

CASE 5145: Application of Texas Pacific Oil Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Devonian formation in the perforated interval from 10,872 feet to 11,032 feet in its State "B" Well No. 2 located in Unit B of Section 11, Township 12 South, Range 33 East, Bagley Siluro-Devonian Pool, Lea County, New Mexico.

CASE 4969: (Reopened)

In the matter of Case No. 4969 being reopened pursuant to the provisions of Order No. R-4557, which order established a temporary special depth bracket allowable for the Tocito Dome-Pennsylvanian "D" Oil Pool, San Juan County, New Mexico. All interested parties may appear and show cause why the special allowable should be made permanent.

CASE 5146: Application of Midwest Oil Corporation for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Target Unit Area comprising 5120 acres, more or less, of State and Federal lands in Townships 25 and 26 South, Range 25 East, Eddy County, New Mexico.

CASE 5147: Application of Mesa Petroleum Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the S/2 of Section 12, Township 16 South, Range 35 East, North Shoe Bar Field, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location for said unit in Unit O of said Section 12. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5148: Application of Coquina Oil Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill a well at an unorthodox gas well location 990 feet from the North and East lines of Section 16, Township 19 South, Range 25 East, Boyd-Morrow Gas Pool, Eddy County, New Mexico, the N/2 of said Section 16 to be dedicated to said well.

CASE 5149: Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the N/2 of Section 33, Township 21 South, Range 27 East, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard Pennsylvanian gas well location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

- CASE 5150: Application of Hanson Oil Corporation for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Queen formation through 10 wells in its Mescalero Ridge Unit Area in Sections 26 and 35, Township 19 South, Range 34 East, Pearl-Queen Pool, Lea County, New Mexico.
- CASE 5151: Application of Penroc Oil Corporation for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause seeks approval for the dual completion (conventional) of its Dero-Federal A-Com Well No. 1, located in Unit N of Section 35, Township 19 South, Range 28 East, Eddy County, New Mexico, in such a manner as to produce gas from the Winchester-Wolfcamp gas pool and an undesignated Strawn gas pool through the casing-tubing annulus and through tubing.
- CASE 5152: Application of Petro-Lewis Corporation for a Special Depth Bracket Allowable, Media-Entrada Oil Pool, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks a special depth bracket allowable for the Media-Entrada Oil Pool, Township 19 North, Range 3 West, Sandoval County, New Mexico.
- CASE 5140: (Continued from the January 3, 1974, Examiner Hearing)
- Application of Pierce & Dehlinger for compulsory pooling, Vada-Pennsylvanian Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Vada-Pennsylvanian Pool underlying the NW/4 of Section 24, Township 9 South, Range 33 East, Lea County, New Mexico, to be dedicated to the King Resources Sheridan Well No. 1-A located in Unit C of said Section 24. Also to be considered is designation of the applicant as operator of the NW/4 of said Section 24 and the well located thereon, provision for allocation of actual operating costs and charges for supervision, and allocation of costs for reworking said well including a 200% charge attributable to any non-consenting working interest owner's pro rata share of said workover costs, for the risk involved in said workover.
- CASE 4956: (Reopened) (Continued from the January 3, 1974, Examiner Hearing)
- Application of Pierce & Dehlinger for a determination of well costs, Lea County, New Mexico. Applicant, as operator of the Sheridan Well No. 1 located in Unit M of Section 13, Township 9 South, Range 33 East, Lea County, New Mexico, to which well is dedicated the SW/4 of said Section 13, all mineral interests in the Vada-Pennsylvanian Pool thereunder having been pooled by Commission Order No. R-4560, seeks the determination of reasonable well costs attributable to applicant and to King Resources, including, but not limited to, the costs of reworking and placing said Sheridan Well No. 1 back on production and attorneys fees in connection therewith. Applicant further seeks an order assessing, as a charge for the risk involved in the reworking of the well, 120% of the pro rata share of the reasonable well costs attributable to the working interest of King Resources.

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Midwest Oil Corp

Tanger Unit Area

Federal State

5120 acres

25 25 Eddy Co.

26 25

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
January 16, 1974
EXAMINER HEARING

IN THE MATTER OF:

Application of Midwest Oil
Corporation for a unit agree-
ment, Eddy County, New Mexico.

Case No. 5146

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conser-
vation Commission:

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Legal Counsel for the Com-
mission
State Land Office Building
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For the Applicant:
(Midwest Oil Corporation)

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(Michael Grace)

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	<u>Marked</u>	<u>Admitted</u>
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MR. STAMETS: Call the next case, 5146.

MR. DERRYBERRY: Case 5146. Application of Midwest Oil Corporation for a unit agreement, Eddy County, New Mexico.

MR. HINKLE: Clarence Hinkle, Hinkle, Bondurant, Cox and Eaton, appearing on behalf of Midwest Corporation. We have one witness and three Exhibits.

MR. STAMETS: Any other appearances in this case?

MR. LINES: Farrell Lines appearing for Michael Grace. At this time we would ask for a continuance in this Hearing. We have some leases in Township 25 and 26 South, Range 25 East, Eddy County. However, we haven't been able to determine from the publications here exactly what is going to be included in 5120 acres. We're not sure whether our land is included or whether it isn't. We've never even had the chance to determine whether or not we are in agreement or whether we feel there is justification or not justification for this.

MR. HINKLE: We cannot consent to continuance of this case because this well has to be drilling in order to save the leases in the unit in a very, very short time.

MR. LINES: In the future, when these kinds of cases are advertised is there any way to let us know what it is talking about. Many, many acres here. Let's --

(Whereupon, a discussion was
held off the record.)

MR. STAMETS: Mr. Lines, I'm going to deny your
Motion for continuance and proceed with this case at this
time.

FRANK L. SCHATZ

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

DIRECT EXAMINATION

BY MR. HINKLE:

Q State your name, your residence, and by whom you
are employed?

A My name is Frank L. Schatz, S-c-h-a-t-z. My resi-
dence is Midland, Texas and I'm employed by Midwest Oil
Corporation as Regional Exploration Manager of the Midland
office.

Q Have you previously testified before the Commission?

A I have.

Q And qualified as a petroleum geologist?

A Yes, sir.

Q Are these a matter of record?

A Yes, sir.

Q Are you familiar with the Application of Midwest

SCHATZ-DIRECT

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in this case?

A I am.

Q What is Midwest seeking to accomplish?

A Midwest seeks to put together an eight-section unit in Township 25 and 26 South, Range 25 East for the drilling of a 12,000-foot Morrow test to be located in the southeast quarter of Section 2, Township 26 South, Range 25 East.

Q This is to be known as the Target Unit Area?

A Yes, sir.

Q Have you prepared, or has anyone prepared under your direction three Exhibits for introduction in this case?

A I prepared or had them prepared under my direction, Exhibits 1 and 3. Exhibit No. 2 is a letter from the U.S.G.S.

Q Refer to Exhibit 1 and explain what this is, what it shows?

A Exhibit No. 1 is a sub-surface structure map contoured on top of the Morrow formation of Pennsylvanian H. Midwest leases are shown in yellow on the map. Production in the area is colored with the code shown at the bottom of the map. This sub-surface structure map at the north end where the production is indicated in the center of the map is the south part of the South Carlsbad Field. Moving then to the south, southwest, we encounter the Crawford and White

SCHATZ-DIRECT

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City Pennsylvanian Fields and continuing on down in a straight line direction is the designated Target Unit.

Q Which is outlined in red?

A Which is outlined in red. Which the location is shown with a red dotted and with an arrow to it.

Q Has this area been designated as an area suitable and proper for unitization by the U.S.G.S.?

A It has, subject to conditions of the approval of a unit agreement.

Q This contains both State and Federal lands?

A Yes.

Q Referring to Exhibit 2, is this the letter of the U.S.G.S. designating the area one suitable for unitization?

A Yes, sir, it is.

Q The letter designating the area, called for the drilling of a Morrow Well, but not to exceed depth of 12,000 feet, is that correct?

A That's correct.

Q Is it your opinion that as a geologist that the well at 12,000 feet will test the Morrow in this area?

A To the best of my ability at this time.

Q Refer to Exhibit 3, which is the proposed formal unit agreement. Has this form, substantially the same form,

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heretofore approved by the Commission where Federal and State lands are involved?

A Yes, sir, it is.

Q It has been approved or designated as to the form by the U.S.G.S. and what about the Commissioner of Public Lands?

A The Commissioner of Public Lands has been handed a copy of the unit agreement with Application and filing fee and he has told us verbally that on the surface it appears to be the same unit agreement previously approved by his office. If you wish to call him, he offered to come down and make an appearance as to that statement.

Q Is Midwest designated as the unit operator in the unit agreement?

A Yes, sir, it is.

Q This provides for the drilling of a well which has been referred to as the Morrow formation?

A Yes, it does.

Q That's provided for in Section 9?

A In Section 9.

Q What is the present status of execution of the unit by the working interest owners and the unit royalty owners?

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A All of the working-interest owners in the unit have ratified a unit agreement and consented to the unit agreement. All, with exception of one percent of the overriding royalty owners in the area have agreed to ratify or have ratified the unit agreement. The one percent that is remaining to be ratified is expected to be in within two weeks.

Q So, you anticipate 100 percent committment both working interest and overriding royalty interest?

A That's true.

Q The unit agreement, I believe, provides for commencement of the well within six months. Do you intend to commence the well earlier than this?

A We intend to commence the well prior to February 1, which is the expiration date on the first expiring lease in the area.

Q In order to save that lease, the well must be commenced prior to February 1st, is that right?

A In order to save the lease, the unit must be approved and the well commenced by that date.

Q In your opinion, if this Application is approved, will the unit agreement be in the interest of conservation and prevention of waste and protect correlative rights?

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A Yes, it will.

MR. HINKLE: I would like to offer Exhibits 1, 2 and 3.

MR. STAMETS: Without objection, Applicant's Exhibits 1 through 3 will be admitted in evidence.

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

MR. HINKLE: Do you have anything further you would like to add?

THE WITNESS: No.

CROSS EXAMINATION

BY MR. PORTER:

Q Is that expiring lease Federal or State?

A That's a Federal Lease. I would like to make a comment to clarify what might be of a concern to you when you look at the Exhibit "A" under the unit agreement. Federal Lease located in Section 3 and Section 11 shows an expiration date of 11-1-73. This Federal Lease was extended by the drilling of the Delaware sandpits in the northwest quarter, Section 11, so that lease should read 11-1-75.

Q So, it's actually in good standing?

A That lease is in good standing.

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MR. PORTER: Thank you.

MR. HINKLE: That's all we have.

MR. STAMETS: Are there any questions of this witness?

MR. LINES: I have no questions.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Schatz, is a copy of the unit agreement in the hands of the U. S. Geological Survey in Denver or Roswell at the time this application was filed?

MR. HINKLE: Did you file the form unit agreement with your application for designation of the area?

A Yes, but we have not gone back to them with the changed form as it refers to the State and Federal lands.

MR. STAMETS: Any other question of the witness?

You may be excused. Anything further in this case?

(Witness is excused.)

MR. HINKLE: No, he did not file three copies of the unit agreement with the application, so, if you got two copies there and you have one more so that makes the three copies.

MR. STAMETS: Anyone else have anything they wish to offer in this case? Any statements?

MR. DERRYBERRY: Mr. Examiner, I would like to make a statement for the Commission in reply to the remark made by Mr. Grace's attorney as to the question regarding what we knew, if Mr. Michael Grace had any offsetting acreage to the proposed unit. I would like to say that to the Commission's knowledge, the decision made in approving any unit has no effect on any rights of any offsetting owners and for that reason the Commission does not feel that there should be any requirement of the location of the unit other than merely designating the County in which it is to be located should be required.

MR. LINES: I say in our defense that we have incurred other actions like this and in the other action the Commission didn't unitize because of objections we made. We brought our geologist in and produced and submitted other information. I think that in all fairness in this thing, we should have the opportunity to know whether or not we do

have offsets, in fact would have information that could be beneficial to the Commission. I simply can't shut out the opportunity to present it.

MR. DERRYBERRY: As I recall, that was extension of pool boundary rather than approval of a unit.

MR. LINES: We also had unitization hearing earlier that we appeared at.

MR. DERRYBERRY: I wanted to get the position of the Commission into the record.

MR. STAMETS: Anything further in this case?

We will take this case under advisement.

STATE OF NEW MEXICO)
COUNTY OF SANTA FE) ss.

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

RICHARD L. NYE, Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5146, heard by me on Jan 16, 1974.
Richard L. Nye, Examiner
New Mexico Oil Conservation Commission

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