

CASE 5132: Appli. of AMERICAN  
QUASAR PETROLEUM FOR APPROVAL OF  
THE WHITE CITY UNIT AGREEMENT.

*See  
p. 30  
of  
file*

CASE No.

5132

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Application,

Transcripts,

Small Exhibits

ETC.

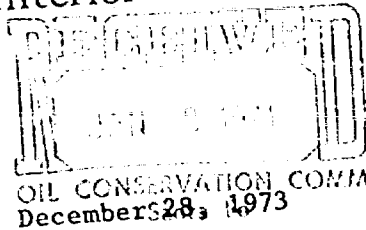


513L

United States Department of the Interior

GEOLOGICAL SURVEY

Drawer 1857  
Roswell, New Mexico 88201



Mr. J. T. Dickerson  
Attorney-at-Law  
1209 Western United Life Building  
Midland, Texas 79701

Dear Mr. Dickerson:

The White City unit agreement, Eddy County, New Mexico, filed by you in behalf of American Quasar Petroleum Company of New Mexico, was approved on December 28, 1973. This agreement has been assigned No. 14-08-0001-13812 and is effective as of December 28, 1973.

Enclosed are two copies of the approved unit agreement. We request that you furnish the Commissioner of Public Lands, the Oil Conservation Commission both of the State of New Mexico and all other interested principals with appropriate evidence of this approval.

Sincerely yours,

*Carl C. Traywick*

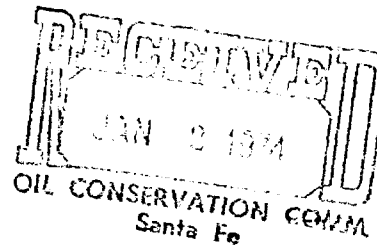
CARL C. TRAYWICK  
Acting Area Oil and Gas Supervisor

**J. T. DICKERSON**  
LAND, LEASE AND UNIT SPECIALIST  
3519 STANOLIND OR 1209 WESTERN UNITED LIFE BUILDING  
MIDLAND, TEXAS 79701

915 682-1436 OFFICE

December 31, 1973

915 694-2979 HOME



Mr. A. L. Porter, Jr.  
Oil Conservation Commission  
State of New Mexico  
P. O. Box 2088  
Santa Fe, New Mexico 87501

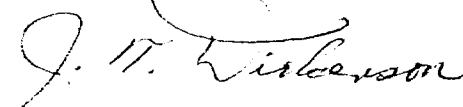
Re: White City Unit  
Eddy County, New Mexico

Dear Mr. Porter:

Enclosed for your files is a copy of U. S. G. S. approval of the above Unit, effective as of December 28, 1973. A copy of the Commissioner of Public Lands' December 26, 1973, approval was heretofore furnished you.

Application for O. C. C. approval was filed by Mr. Clarence Hinkle on or about December 10, 1973 and we understand that it has been placed on the Examiner's docket for January 30.

Yours very truly,

  
J. T. Dickerson

JTD/jw

Enclosure



United States Department of the Interior

GEOLOGICAL SURVEY

Drawer 1857  
Roswell, New Mexico 88201

5132  
December 23, 1973

Mr. J. T. Dickerson  
Attorney-at-Law  
1209 Western United Life Building  
Midland, Texas 79701

Dear Mr. Dickerson:

The White City unit agreement, Eddy County, New Mexico, filed by you in behalf of American Quasar Petroleum Company of New Mexico, was approved on December 28, 1973. This agreement has been assigned No. 14-08-0001-13812 and is effective as of December 28, 1973.

Enclosed are two copies of the approved unit agreement. We request that you furnish the Commissioner of Public Lands, the Oil Conservation Commission both of the State of New Mexico and all other interested principals with appropriate evidence of this approval.

Sincerely yours,

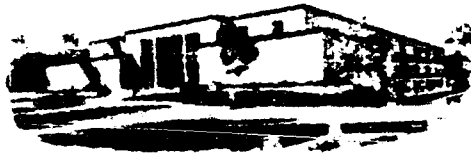
CARL C. TRAYWICK  
Acting Area Oil and Gas Supervisor

cc:  
Artesia (w/cy appln)  
Area Geologist, Roswell (ltr only)  
✓NMOCC, Santa Fe (ltr only)  
Com. Pub. Lands, Santa Fe (ltr only)

JAGillham:ds

5752  
State of New Mexico

TELEPHONE  
505-827-2743



Commissioner of Public Lands

December 26, 1973

ALEX J. ARMIJO  
COMMISSIONER

P. O. BOX 1148  
SANTA FE, NEW MEXICO

Mr. J. T. Dickerson  
Attorney-at-Law  
1209 Western United Life Building  
Midland, Texas 79701

Re: American Quasar Petroleum Company's  
White City Unit  
Eddy County, New Mexico

Dear Mr. Dickerson:

The Commissioner of Public Lands has this date approved American Quasar Petroleum Company's, White City Unit, Eddy County, New Mexico. This approval is subject to like approval by the United States Geological Survey and the Oil Conservation Commission.

Enclosed are five (5) Certificates of approval.

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

Your Eighty (\$80.00) Dollar filing fee has been received.

Very truly yours,

RAY D. GRAHAM, Director  
Oil and Gas Department

AJA/RDG/s  
encls.  
cc:

OCC-Santa Fe, New Mexico  
USGS-Bowwell, New Mexico

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF AMERICAN QUASAR  
PETROLEUM CO. OF NEW MEXICO FOR  
APPROVAL OF THE UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE WHITE CITY UNIT AREA  
EMBRACING 5,119.96 ACRES IN  
TOWNSHIP 25 SOUTH, RANGES 25 *and 26*  
EAST, N.M.P.M. EDDY COUNTY, NEW  
MEXICO.

*Page 5732*

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Oil Conservation Commission  
Box 2088  
Santa Fe, New Mexico 87501

Comes American Quasar Petroleum Co. of New Mexico, acting by and through the undersigned attorneys, and hereby makes application for approval of the Unit Agreement for the Development and Operation of the White City Unit Area embracing 5,119.96 acres in Township 25 South, Range 25 East, N.M.P.M. Eddy County, New Mexico, hereby files three copies of the proposed unit agreement, and in support thereof respectfully shows:

1. The proposed unit area is comprised of 4,120 acres, or 80.47% of federal lands, 640.56 acres, or 12.51% of state lands, and 359.40 acres, or 7.02% of fee or privately owned lands, containing in all 5,119.96 acres. There is attached hereto, made a part hereof and for purposes of identification marked Exhibit "A", a plat of the proposed unit area showing the ownership of all oil and gas leasehold interests within the proposed unit area.

2. The proposed unit agreement is in substantially the same form as unit agreement heretofore approved by the Commission where federal, state and fee lands are involved.

3. The proposed unit area has been informally approved by the United States Geological Survey and the Commissioner of Public Lands of the State of New Mexico as an area suitable and proper for unitization.

4. It is believed that the proposed unit area covers all, or substantially all, of the geological feature or anomaly involved. Applicant is designated as the unit operator and the unit agreement provides that the unit operator will commence a well within 6 months from the effective date of the unit and drill the same with due diligence to a depth sufficient to test the base of the Morrow formation, but will not be required to drill a well in excess of 11,700 feet.

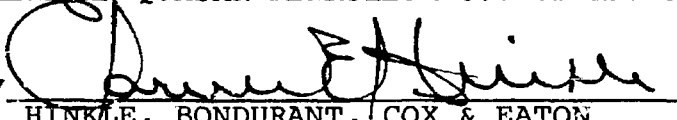
5. It is anticipated that 100% of the working interest owners as shown on Exhibit "B" attached to the unit agreement will commit their respective interests to the unit.

6. Applicant believes that approval of the unit agreement will be in the interest of conservation, the prevention of waste and will tend to protect correlative rights.

7. Applicant requests that this matter be set for hearing before an examiner in January, 1974.

Respectfully submitted,

AMERICAN QUASAR PETROLEUM CO. OF NEW MEXICO

By   
HINKLE, BONDURANT, COX & EATON  
P.O. Box 10  
Roswell, New Mexico 88201  
Attorneys for Applicant



BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF AMERICAN QUASAR  
PETROLEUM CO. OF NEW MEXICO FOR  
APPROVAL OF THE UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE WHITE CITY UNIT AREA  
EMBRACING 5,119.96 ACRES IN  
TOWNSHIP 25 SOUTH, RANGE 25  
EAST, N.M.P.M. EDDY COUNTY, NEW  
MEXICO.

*Page 5132*

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Oil Conservation Commission  
Box 2088  
Santa Fe, New Mexico 87501

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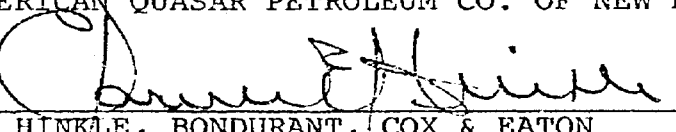
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7. Applicant requests that this matter be set for hearing before an examiner in January, 1974.

Respectfully submitted,

AMERICAN QUASAR PETROLEUM CO. OF NEW MEXICO

By

  
HINKLE, BONDURANT, COX & EATON  
P.O. Box 10  
Roswell, New Mexico 88201  
Attorneys for Applicant

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF AMERICAN QUASAR  
PETROLEUM CO. OF NEW MEXICO FOR  
APPROVAL OF THE UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE WHITE CITY UNIT AREA  
EMBRACING 5,119.96 ACRES IN  
TOWNSHIP 25 SOUTH, RANGE 25  
EAST, N.M.P.M. EDDY COUNTY, NEW  
MEXICO.

*Case 2732*

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Oil Conservation Commission  
Box 2088  
Santa Fe, New Mexico 87501

Comes American Quasar Petroleum Co. of New Mexico, acting by and through the undersigned attorneys, and hereby makes application for approval of the Unit Agreement for the Development and Operation of the White City Unit Area embracing 5,119.96 acres in Township 25 South, Range 25 East, N.M.P.M. Eddy County, New Mexico, hereby files three copies of the proposed unit agreement, and in support thereof respectfully shows:

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5. It is anticipated that 100% of the working interest owners as shown on Exhibit "B" attached to the unit agreement will commit their respective interests to the unit.

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7. Applicant requests that this matter be set for hearing before an examiner in January, 1974.

Respectfully submitted,

AMERICAN QUASAR PETROLEUM CO. OF NEW MEXICO

By 

HINKLE, BONDURANT, COX & EATON

P.O. Box 10

Roswell, New Mexico 88201

Attorneys for Applicant



## OIL CONSERVATION COMMISSION

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

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

February 13, 1974

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

Re: CASE NO. 5132  
ORDER NO. R-4720  
Applicant:  
American Quasar Petroleum

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.  
Secretary-Director

ALP/ir

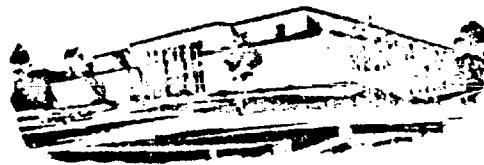
Copy of order also sent to:

Hobbs OCC x  
Artesia OCC x  
Aztec OCC       

Other                     Unit Division - State Land Office

State of New Mexico

5152  
TELEPHONE  
505-827-2748



Commissioner of Public Lands

March 26, 1974

P. O. BOX 1148  
SANTA FE, NEW MEXICO

ALEX J. ARMIJO  
COMMISSIONER

American Quasar Petroleum Company  
606 Vaughn Building  
Midland, Texas 79701

Re: Termination of the White City Unit  
Eddy County, New Mexico

ATTENTION: Mr. Howard P. Bradford

Gentlemen:

We are in receipt of your letter dated March 22, 1974, together with your application whereby you wish to terminate the White City Unit Agreement, Eddy County, New Mexico.

As per Section 20 (d) of the unit agreement, the Commissioner of Public Lands has this date given his approval to the termination of the White City Unit, subject to like approval by the United States Geological Survey.

Enclosed is one Certificate of Approval for your files. We are sending a copy of this letter as well as a copy of the Certificate of approval to the United States Geological Survey.

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

Very truly yours,

RAY D. GRAHAM, Director  
Oil and Gas Department

AJA/RDG/s  
encls.  
cc:

USGS-Roswell, New Mexico (cpy of ltr. and Certificate)  
OCC- Santa Fe, New Mexico (cpy of ltr. only) ✓

Unit Name WHITE CITY UNIT (EXPLORATORY)  
 Operator AMERICAN QUASAR PETROLEUM COMPANY  
 County EDDY

5132 JCC

DATE	OCC CASE NO.	5132	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	EMBEAR-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO.	R-4720							
Commissioner	2-13-74		12-28-73	5,119.96	640.56	4,120.00	359.40	Yes	5yrs.
12-26-73									

UNIT AREA

TOWNSHIP 25 SOUTH, RANGE 25 EAST, NMPM  
 Section 1: A11  
 Section 2: A11  
 Section 11: A11  
 Section 12: A11  
 Section 13: A11  
 Section 14: A11

TOWNSHIP 25 South, Range 26 East, NMPM  
 Section 6: A11  
 Section 7: A11

RECEIVED  
 3-26-74  
 3-25-74  
 JCC

Unit Name WHITE CITY UNIT (EXPLORATORY)  
 Operator AMERICAN QUASAR PETROLEUM COMPANY  
 County Eddy

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
10	K-6601-2	C.S.	2	25S	25E	Lots 1, 2, 3, 4, SE/4NW/4, S/2NE/4, NE/4SW/4, S/2SW/4, N/2SE/4, SE/4SE/4	12-2-73	520.56		Sun Oil Company
11.	LG-619	C.S.	2	25S	25E	SW/4NW/4, NW/4SW/4, SW/4SE/4	12-19-73	120.00		Superior Oil Company

RECEIVED  
 3-26-74  
 3-25-74  
 CH.



0000

5132

Unit Name WHITE CITY UNIT (EXPLORATORY)  
Operator AMERICAN QUASAR PETROLEUM COMPANY  
County EDDY

DATE	OCC CASE NO.	5132	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO.	R-4720							
Commissioner	2-13-74		12-28-73	5,119.96	640.56	4,120.00	359.40	Yes	5yrs.
12-26-73									

UNIT AREA

TOWNSHIP 25 SOUTH, RANGE 25 EAST, NMPM	
Section 1:	All
Section 2:	All
Section 11:	All
Section 12:	All
Section 13:	All
Section 14:	All
TOWNSHIP 25 South, Range 26 East, NMPM	
Section 6:	All
Section 7:	All

Unit Name WHITE CITY UNIT (EXPLOATORY)  
 Operator AMERICAN QUASAR PETROLEUM COMPANY  
 County Eddy

STATE TRACT NO.	LEASE NO.	INSTI- TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
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11.	LG-619	C.S.	2	25S	25E	SW/4NW/4, NW/4SW/4, SW/4SE/4	12-19-73	120.00		Superior Oil Company

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. 5132  
Order No. R-4720

APPLICATION OF AMERICAN QUASAR  
PETROLEUM COMPANY OF NEW MEXICO  
FOR APPROVAL OF THE WHITE CITY  
UNIT AGREEMENT, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on January 30, 1974,  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 13th day of February, 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, American Quasar Petroleum Company  
of New Mexico, seeks approval of the White City Unit Agreement  
covering 5,120 acres, more or less, of State, Federal and Fee  
lands described as follows:

EDDY COUNTY, NEW MEXICO  
TOWNSHIP 25 SOUTH, RANGE 25 EAST, NMPM  
Sections 1 and 2: All  
Sections 11 through 14: All

TOWNSHIP 25 SOUTH, RANGE 26 EAST, NMPM  
Sections 6 and 7: 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 White City 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

-2-

CASE NO. 5132  
Order No. R-4720

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



*A. J. Armiijo*  
ALEX J. ARMIJO, Member

*A. L. Porter, Jr.*  
A. L. PORTER, JR., Member & Secretary

S E A L

jr/

**COORS, SINGER & BROULLIRE**

*Attorneys and Counselors at Law*

HENRY G. COORS, IV  
ROBERT N. SINGER  
PETER J. BROULLIRE III  
ROBERT H. BORKENHAGEN

SUITE 1100  
AMERICAN BANK OF COMMERCE BUILDING  
200 LOMAS BOULEVARD, N.W.  
ALBUQUERQUE, NEW MEXICO 87102

TELEPHONE 243-3547  
AREA CODE 505

January 21, 1974

Honorable I.R. Trujillo  
Chairman  
Oil Conservation Commission of the  
State of New Mexico  
Santa Fe, New Mexico 87501

Re: Case No. 5132

Dear Mr. Chairman:

The above referred to case was reset to be heard on Wednesday, January 30, 1974, at 9 a.m. At the previous hearing on January 3, 1974, I represented Mr. Michael P. Grace in his objection to the application for a unit agreement on the land involved. The objection at that time was to the lack of designation of the sections of land involved in this proposed unit agreement.

Mr. Grace has some land in that area, but cannot determine whether or not any of his land is involved in the application for a unit agreement.

If your office would kindly notify me of the sections involved in this proposed unit agreement, it would greatly help us in determining whether or not we are opposed to the granting of a unit agreement.

Thank you very much for your kind and considerate cooperation in this matter.

Sincerely,

  
Robert H. Borkenhagen

RHB/tap

cc: Michael P. Grace

CLARENCE E. HINKLE  
W. E. BONDURANT, JR.  
LEWIS C. COX, JR.  
PAUL W. EATON, JR.  
CONRAD E. COFFIELD  
HAROLD L. HENSLEY, JR.  
STUART D. SHANOR  
C. D. MARTIN  
PAUL J. KELLY, JR.  
ANDREW HANSEN

LAW OFFICES  
HINKLE, BONDURANT, COX & EATON  
600 HINKLE BUILDING  
POST OFFICE BOX 10  
ROSWELL, NEW MEXICO 86201

TELEPHONE (505) 622-6510

MIDLAND, TEXAS OFFICE  
521 MIDLAND TOWER  
(915) 683-4891

December 6, 1973

Oil Conservation Commission  
Box 2088  
Santa Fe, New Mexico 87501

*Case 51521*

Gentlemen:

We enclose herewith in triplicate application of American Quasar Petroleum Co. of New Mexico for approval of the White City Unit Agreement, together with 3 copies of the proposed form of unit agreement. We would appreciate having this matter set down for hearing at an examiner's hearing in January, 1974.

Yours very truly,

HINKLE, BONDURANT, COX & EATON

By Clarence E. Hinkle  
ed

CEH:cs  
Enc.

DOCKET MAILED

DOCKET MAILED

Date

1-18-74

Date

12-18-73

DOCKET: EXAMINER HEARING - WEDNESDAY - JANUARY 30, 1974

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

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

CASE 5153: In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the amendment of Commission Form C-113, Refiner's Monthly Report.

CASE 5154: In the matter of the hearing called by the Oil Conservation Commission on its own motion, at the recommendation of the Commission's "Pictured Cliffs Gas Proration Committee," to consider the amendment of Commission Order No. R-1670 for the purpose of elimination of gas prorationing in the Aztec-Pictured Cliffs, Ballard-Pictured Cliffs, Fulcher Kutz-Pictured Cliffs, and West Kutz-Pictured Cliffs Gas Pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 5128: (Continued from the January 3, 1974, Examiner Hearing)

Application of Gulf Oil Corporation for a non-standard gas proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 160-acre non-standard gas proration unit comprising the NE/4 SW/4 and W/2 SE/4 of Section 28 and the NW/4 NE/4 of Section 33, both in Township 21 South, Range 37 East, Blinbry Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to its J. N. Carson Wells Nos. 4 and 9 located in Units O and K, respectively, of Section 28.

CASE 5132: (Continued from the January 3, 1974, Examiner Hearing)

Application of American Quasar Petroleum Company of New Mexico for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the White City Unit Area comprising 5,120 acres, more or less, of Federal, State and fee lands in Township 25 South, Ranges 25 and 26 East, Eddy County, New Mexico.

CASE 5155: Application of Harding Oil Company for directional drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks to re-enter an existing well, the surface location of which is 2310 feet from the South line and 1650 feet from the West line of Section 34, Township 13 South, Range 32 East. Adjacent to the old Gross-Devonian Pool, Lea County, New Mexico, and to directionally drill said well in such a manner as to bottom the well in the Devonian formation within 100 feet of a point 430 feet South 60 degrees West of the surface location.

- CASE 5156: Application of Franklin, Aston & Fair for pool creation and special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new gas pool for Morrow production for its McIntyre Well No. 6-A located in Unit 0 of Section 20, Township 17 South, Range 30 East, Eddy County, New Mexico, and for the promulgation of special pool rules therefor including a provision for 640-acre spacing.
- CASE 5159: Application of Petroleum Reserve Corporation for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Wood Canyon Unit Area comprising 2,560 acres, more or less, of Federal and fee lands in Township 24 South, Range 25 East, Eddy County, New Mexico.
- CASE 5160: Application of Randolph M. Richardson for a unit agreement, Eddy and Chaves Counties, New Mexico. Applicant, in the above-styled cause, seeks approval for the West Hope Unit Area comprising 13,448 acres, more or less, of Federal, State and Fee lands in Townships 17 and 18 South, Ranges 20 and 21 East, Eddy and Chaves Counties, New Mexico.
- CASE 5161: Application of Depco, Inc. for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for its Northwest Artesia Unit Area comprising 640 acres, more or less of State lands in Sections 31 and 32, Township 17 South, Range 28 East, and Section 6, Township 18 South, Range 28 East, Eddy County, New Mexico.
- CASE 5144: (Continued and Readvertised)
- Application of Depco, Inc. for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Grayburg-San Andres formation through six wells located in its Northwest Artesia Unit Area, Artesia Pool, Eddy County, New Mexico.
- CASE 5162: Application of Western Oil Producers, Inc. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill an undesignated Morrow gas well at an unorthodox location 1980 feet from the South line and 660 feet from the East line of Section 34, Township 17 South, Range 26 East, Eddy County, New Mexico, the S/2 of said Section 34 to be dedicated to the well.
- CASE 5163: Application of Western Oil Producers, Inc. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill an undesignated Morrow gas well at an unorthodox location 660 feet from the South and East lines of Section 27, Township 17 South, Range 26 East, Eddy County, New Mexico, the S/2 of said Section 27 to be dedicated to the well. As an alternative, applicant seeks approval for a location 1980 feet from the South line and 660 feet from the East line of said Section 27.



- CASE 5158: 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 E/2 of Section 29, Township 21 South, Range 27 East, Eddy County, New Mexico, to be dedicated to its Simpson Well No. 1 to be drilled at an orthodox 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 5157: 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 S/2 of Section 9, Township 21 South, Range 27 East, Burton Flats Field, Eddy County, New Mexico, to be dedicated to its State C-P Well No. 1 to be drilled at an orthodox 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 5164: Application of Jake L. Hamon for compulsory pooling and for an unorthodox location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order force pooling all mineral interests in the Strawn and Morrow formations underlying the E/2 of Section 9, Township 21 South, Range 27 East, Burton Flats Field, Eddy County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 1650 feet from the North line and 660 feet from the East line of said Section 9. 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.

1 UNIT AGREEMENT 1  
2 FOR THE DEVELOPMENT AND OPERATION 2  
3 OF THE 3  
4 WHITE CITY UNIT AREA 4  
5 COUNTY OF EDDY 5  
6 STATE OF NEW MEXICO 6  
7 NO. 5132 7

8 THIS AGREEMENT, entered into as of the 1st day of December, 8  
9 1973, by and between the parties subscribing, ratifying or consent- 9  
10 ing hereto, and herein referred to as the "parties hereto". 10

11 W I T N E S S E T H: 11

12 WHEREAS, the parties hereto are the owners of working, royalty 12  
13 or other oil and gas interests in the unit area subject to this 13  
14 agreement; and 14

15 WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 15  
16 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal 16  
17 lessees and their representatives to unite with each other, or joint- 17  
18 ly or separately with others, in collectively adopting and operating 18  
19 a cooperative or unit plan of development or operation of any oil or 19  
20 gas pool, field, or like area, or any part thereof for the purpose of 20  
21 more properly conserving the natural resources thereof whenever de- 21  
22 termined and certified by the Secretary of the Interior to be necess- 22  
23 ary or advisable in the public interest; and 23

24 WHEREAS, the Commissioner of Public Lands of the State of New 24  
25 Mexico is authorized by an Act of the Legislature (Sec. 7-11-29 N.M. 25  
26 Statutes 1953 Annotated) to consent to or approve this agreement on 26  
27 behalf of the State of New Mexico, insofar as it covers and includes 27  
28 lands and mineral interest of the State of New Mexico; and, 28

1 WHEREAS, the Oil Conservation Commission of the State of New 1  
2 Mexico is authorized by an Act of the Legislature (Chapter 72, Laws 2  
3 of 1935, as amended by Chapter 193, Laws of 1937, Chapter 166, Laws 3  
4 of 1941, and Chapter 168, Laws of 1949) to approve this agreement 4  
5 and the conservation provisions hereof; and, 5

6 WHEREAS, the parties hereto hold sufficient interests in the 6  
7 White City Unit Area covering the land hereinafter described 7  
8 to give reasonably effective control of operations therein; and 8

9 WHEREAS, it is the purpose of the parties hereto to conserve 9  
10 natural resources, prevent waste, and secure other benefits obtain- 10  
11 able through development and operation of the area subject to this 11  
12 agreement under the terms, conditions, and limitations herein set 12  
13 forth; 13

14 NOW, THEREFORE, in consideration of the premises and the 14  
15 promises herein contained, the parties hereto commit to this agree- 15  
16 ment their respective interests in the below-defined unit area, and 16  
17 agree severally among themselves as follows: 17

18 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 18  
19 February 25, 1920, as amended, supra, and all valid pertinent regu- 19  
20 lations, including operating and unit plan regulations, heretofore 20  
21 issued thereunder or valid, pertinent, and reasonable regulations 21  
22 hereafter issued thereunder are accented and made a part of this 22  
23 agreement as to Federal lands, provided such regulations are not in- 23  
24 consistent with the terms of this agreement; and as to non-Federal 24  
25 lands, the oil and gas operating regulations in effect as of the 25  
26 effective date hereof governing drilling and producing operations, 26  
27 not inconsistent with the terms hereof or the laws of the State in 27  
28 which the non-Federal land is located, are hereby accepted and made 28  
29 a part of this agreement. 29

30 2. UNIT AREA. The following described land is hereby desig- 30  
31 nated and recognized as constituting the unit area: 31

Township 25 South, Range 26 east, NMPM

Section 1: All

Section 2: All

Section 11: All

Section 12: All

Section 13: All

Section 14: All

Township 25 South, Range 26 East, NMPM

Section 6: All

Section 7: All

Containing 5,119.96 acres, more or less

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extend known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner", and not less than five (5) copies of the Revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission".

1           The above-described unit area shall when practicable be ex- 1  
2   panded to include therein any additional lands or shall be con- 2  
3   tracted to exclude lands whenever such expansion or contraction is 3  
4   deemed to be necessary or advisable to conform with the purposes 4  
5   of this agreement. Such expansion or contraction shall be effected 5  
6   in the following manner: 6

7           (a) Unit Operator, on its own motion or on demand of the 7  
8   Director of the Geological Survey, hereinafter referred to as 8  
9   "Director", or on demand of the Land Commissioner, after preliminary 9  
10   concurrence by the Director, shall prepare a notice of proposed 10  
11   expansion or contraction describing the contemplated changes in the 11  
12   boundaries of the unit area, the reasons therefor, and the proposed 12  
13   effective date thereof, preferably, the first day of a month subse- 13  
14   quent to the date of notice. 14

15           (b) Said notice shall be delivered to the Supervisor, the 15  
16   Land Commissioner and the State Commission, and copies thereof mailed 16  
17   to the last known address of each working interest owner, lessee, 17  
18   and lessor whose interests are affected, advising that thirty (30) 18  
19   days will be allowed for submission to the Unit Operator of any ob- 19  
20   jections. 20

21           (c) Upon expiration of the 30-day period provided in the 21  
22   preceding item (b) hereof, Unit Operator shall file with the Super- 22  
23   visor, the Land Commissioner and the State Commission, evidence of 23  
24   mailing of the notice of expansion or contraction and a copy of any 24  
25   objections thereto which have been filed with the Unit Operator, to- 25  
26   gether with an application in sufficient number, for approval of 26  
27   such expansion or contraction and with appropriate joinders. 27

28           (d) After due consideration of all pertinent information, 28  
29   the expansion or contraction shall, upon approval by the Supervisor, 29  
30   the Land Commissioner, become effective as of the date prescribed in 30  
31   the notice thereof. 31

1 (e) All legal subdivisions of lands (i.e., 40 acres by 1  
2 Government survey or its nearest lot or tract equivalent; in instan- 2  
3 ces of irregular surveys unusually large lots or tracts shall be 3  
4 considered in multiples of 40 acres or the nearest aliquot equiva- 4  
5 lent thereof), no parts of which are entitled to be in a partici- 5  
6 pating area on or before the fifth anniversary of the effective date 6  
7 of the first initial participating area established under this unit 7  
8 agreement, shall be eliminated automatically from this agreement, 8  
9 effective as of said fifth anniversary, and such lands shall no 9  
10 longer be a part of the unit area and shall no longer be subject to 10  
11 this agreement, unless diligent drilling operations are in progress 11  
12 on unitized lands not entitled to participation on said fifth anni- 12  
13 versary, in which event all such lands shall remain subject hereto 13  
14 for so long as such drilling operations are continued diligently, 14  
15 with not more than 90 days' time elapsing between the completion of 15  
16 one such well and the commencement of the next such well. All legal 16  
17 subdivisions of lands not entitled to be in a participating area 17  
18 within 10 years after the effective date of the first initial par- 18  
19 ticipating area approved under this agreement shall be automatically 19  
20 eliminated from this agreement as of said tenth anniversary. All 20  
21 lands proved productive by diligent drilling operations after the 21  
22 aforesaid 5-year period shall become participating in the same 22  
23 manner as during said 5-year period. However, when such diligent 23  
24 drilling operations cease, all nonparticipating lands shall be auto- 24  
25 matically eliminated effective as of the 91st day thereafter. The 25  
26 unit operator shall within 90 days after the effective date of any 26  
27 elimination hereunder, describe the area so eliminated to the satis- 27  
28 faction of the Supervisor and the Land Commissioner and promptly 28  
29 notify all parties in interest. 29  
30 If conditions warrant extension of the 10-year period speci- 30  
31 fied in this subsection 2(e), a single extension of not to exceed 2 31

1 years may be accomplished by consent of the owners of 90% of the 1  
2 working interests in the current nonparticipating unitized lands and 2  
3 the owners of 60% of the basic royalty interests (exclusive of the 3  
4 basic royalty interests of the United States) in nonparticipating 4  
5 unitized lands with approval of the Director and Land Commissioner, 5  
6 provided such extension application is submitted to the Director 6  
7 and the Land Commissioner not later than 60 days prior to the ex- 7  
8 piration of said 10-year period. 8

9 Any expansion of the unit area pursuant to this section which 9  
10 embraces lands theretofore eliminated pursuant to this subsection 10  
11 2(e) shall not be considered automatic commitment or recommitment 11  
12 of such lands. 12

13 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land com- 13  
14 mitted to this agreement shall constitute land referred to herein 14  
15 as "unitized land" or "land subject to this agreement". All oil 15  
16 and gas in any and all formations of the unitized land are unitized 16  
17 under the terms of this agreement and herein are called "unitized 17  
18 substances". 18

19 4. UNIT OPERATOR. American Quasar Petroleum Co. of New Mexico 19  
20 is hereby designated as Unit Operator and by signature hereto as 20  
21 Unit Operator agrees and consents to accept the duties and obligations 21  
22 of Unit Operator for the discovery, development, and production of 22  
23 unitized substances as herein provided. Whenever reference is made 23  
24 herein to the Unit Operator, such reference means the Unit Operator 24  
25 acting in that capacity and not as an owner of interest in unitized 25  
26 substances, and the term "working interest owner" when used shall 26  
27 include or 27

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

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

17 Unit Operator shall have the right to resign in like manner 17  
18 and subject to like limitations as above provided at any time a par- 18  
19 ticipating area established hereunder is in existence, but, in all 19  
20 instances of resignation or removal, until a successor unit operator 20  
21 is selected and approved as hereinafter provided, the working inter- 21  
22 est owners shall be jointly responsible for performance of the duties 22  
23 of unit operator, and shall not later than 30 days before such resig- 23  
24 nation or removal becomes effective appoint a common agent to repre- 24  
25 sent them in any action to be taken hereunder. 25

26 The resignation of Unit Operator shall not release Unit Oper- 26  
27 ator from any liability for any default by it hereunder occurring 27  
28 prior to the effective date of its resignation. 28

29 The Unit Operator may, upon default or failure in the perfor- 29  
30 mance of its duties or obligations hereunder, be subject to removal 30  
31 by the same percentage vote of the owners of working interests as 31



1 herein provided for the selection of a new Unit Operator. Such re- 1  
2 moval shall be effective upon notice thereof to the Supervisor and 2  
3 the Land Commissioner. 3

4 The resignation or removal of Unit Operator under this agree- 4  
5 ment shall not terminate its right, title, or interest as the owner 5  
6 of a working interest or other interest in unitized substances, but 6  
7 upon the resignation or removal of Unit Operator becoming effective, 7  
8 such Unit Operator shall deliver possession of all wells, equipment, 8  
9 materials, and appurtenances used in conducting the unit operations 9  
10 to the new duly qualified successor Unit Operator or to the common 10  
11 agent, if no such new Unit Operator is elected, to be used for the 11  
12 purpose of conducting unit operations hereunder. Nothing herein 12  
13 shall be construed as authorizing removal of any material, equip- 13  
14 ment and appurtenances needed for the preservation of any wells. 14

15 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall 15  
16 tender his or its resignation as Unit Operator or shall be removed 16  
17 as hereinabove provided, or a change of Unit Operator is negotiated 17  
18 by working interest owners, the owners of the working interests in 18  
19 the participating area or areas according to their respective acre- 19  
20 age interests in such participating area or areas, or, until a par- 20  
21 ticipating area shall have been established, the owners of the 21  
22 working interests according to their respective acreage interests 22  
23 in all unitized land, shall by majority vote select a successor Unit 23  
24 Operator: Provided, That, if a majority but less than 75 per cent 24  
25 of the working interests qualified to vote are owned by one party 25  
26 to this agreement, a concurring vote of one or more additional work- 26  
27 ing interest owners shall be required to select a new operator. 27  
28 Such selection shall not become effective until 28

29 (a) a Unit Operator so selected shall accept in writing the 29  
30 duties and responsibilities of Unit Operator, and 30

31 (b) the selection shall have been approved by the Supervisor 31

1 and approved by the Land Commissioner. 1

2 If no successor Unit Operator is selected and qualified as 2  
3 herein provided, the Director and the Land Commissioner, at their 3  
4 election may declare this unit agreement terminated. 4

5 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If 5  
6 the Unit Operator is not the sole owner of working interests, costs 6  
7 and expenses incurred by Unit Operator in conducting unit operations 7  
8 hereunder shall be paid and apportioned among and borne by the 8  
9 owners of working interests, all in accordance with the agreement 9  
10 or agreements entered into by and between the Unit Operator and the 10  
11 owners of working interests, whether one or more, separately or 11  
12 collectively. Any agreement or agreements entered into between the 12  
13 working interest owners and the Unit Operator as provided in this 13  
14 section, whether one or more, are herein referred to as the "unit 14  
15 operating agreement." Such unit operating agreement shall also 15  
16 provide the manner in which the working interest owners shall be 16  
17 entitled to receive their respective proportionate and allocated 17  
18 share of the benefits accruing hereto in conformity with their 18  
19 underlying operating agreements, leases, or other independent con- 19  
20 tracts, and such other rights and obligations as between Unit 20  
21 Operator and the working interest owners as may be agreed upon by 21  
22 Unit Operator and the working interest owners; however, no such 22  
23 unit operating agreement shall be deemed either to modify any of 23  
24 the terms and conditions of this unit agreement or to relieve the 24  
25 Unit Operator of any right or obligation established under this 25  
26 unit agreement, and in case of any inconsistency or conflict be- 26  
27 tween this unit agreement and the unit operating agreement, this 27  
28 unit agreement shall govern. Three true copies of any unit opera- 28  
29 ting agreement executed pursuant to this section should be filed 29  
30 with the Supervisor and one true copy with the Land Commissioner, 30  
31 prior to approval of this unit agreement. 31

1 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as other 1  
2 wise specifically provided herein, the exclusive right, privilege 2  
3 and duty of exercising any and all rights of the parties hereto 3  
4 which are necessary or convenient for prospecting for, producing, 4  
5 storing, allocating, and distributing the unitized substances are 5  
6 hereby delegated to and shall be exercised by the Unit Operator as 6  
7 herein provided. Acceptable evidence of title to said rights shall 7  
8 be deposited with said Unit Operator and, together with this agree- 8  
9 ment, shall constitute and define the rights, privileges, and obli- 9  
10 gations of Unit Operator. Nothing herein, however, shall be con- 10  
11 strued to transfer title to any land or to any lease or operating 11  
12 agreement, it being understood that under this agreement the Unit 12  
13 Operator, in its capacity as Unit Operator, shall exercise the rights 13  
14 of possession and use vested in the parties hereto only for the pur- 14  
15 poses herein specified. 15

16 9. DRILLING TO DISCOVERY. Within six (6) months after the 16  
17 effective date hereof, the Unit Operator shall begin to drill an 17  
18 adequate test well at a location approved by the Supervisor, if on 18  
19 Federal land, or by the Land Commissioner, if on State land, unless 19  
20 on such effective date a well is being drilled conformably with the 20  
21 terms hereof, and thereafter continue such drilling diligently until 21  
22 the base of the Morrow formation has been penetrated 22  
23 and all formations of the Pennsylvanian age have been tested, or un- 23  
24 til at a lesser depth unitized substances shall be discovered which 24  
25 can be produced in paying quantities (to-wit: quantities sufficient 25  
26 to repay the costs of drilling, completing and producing operations, 26  
27 with a reasonable profit) or the Unit Operator shall at any time es- 27  
28 tablish to the satisfaction of the Supervisor if on Federal land, or 28  
29 the Land Commissioner if on State land, that further drilling of said 29  
30 well would be unwarranted or impracticable; provided, however, that 30  
31 Unit Operator shall not in any event be required to drill said well 31  
32 to a depth in excess of 11,700 feet. Until the discovery 32  
33 of a deposit of unitized sub- 33

stances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well provided for in this section within the time allowed, including any extension of time granted by the Supervisor and the Land Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and the Land Commissioner may, after 15-days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor and the Land Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Land Commissioner, shall constitute the further drilling and operating obligations of the Unit

1 Operator under this agreement for the period specified therein. 1  
2 Thereafter, from time to time before the expiration of any existing 2  
3 plan, the Unit Operator shall submit for the approval of the Super- 3  
4 visor and the Land Commissioner a plan for an additional specified 4  
5 period for the development and operation of the unitized land. 5  
6 Any plan submitted pursuant to this section shall provide for 6  
7 the exploration of the unitized area and for the diligent drilling 7  
8 necessary for determination of the area or areas thereof capable of 8  
9 producing unitized substances in paying quantities in each and every 9  
10 productive formation and shall be as complete and adequate as the 10  
11 Supervisor and the Land Commissioner may determine to be necessary 11  
12 for timely development and proper conservation of the oil and gas 12  
13 resources of the unitized area and shall: 13  
14 (a) specify the number and locations of any wells to be 14  
15 drilled and the proposed order and time for such drilling; and 15  
16 (b) to the extent practicable specify the operating practices 16  
17 regarded as necessary and advisable for proper conservation of 17  
18 natural resources. 18  
19 Separate plans may be submitted for separate productive zones, sub- 19  
20 ject to the approval of the Supervisor and the Land Commissioner. 20  
21 Plans shall be modified or supplemented when necessary to meet 21  
22 changed conditions or to protect the interests of all parties to 22  
23 this agreement. Reasonable diligence shall be exercised in comply- 23  
24 ing with the obligations of the approved plan of development. The 24  
25 Supervisor and the Land Commissioner are authorized to grant a 25  
26 reasonable extension of the 6-month period herein prescribed for 26  
27 submission of an initial plan of development where such action is 27  
28 justified because of unusual conditions or circumstances. After com- 28  
29 pletion hereunder of a well capable of producing any unitized sub- 29  
30 stance in paying quantities, no further wells, except such as may 30  
31 be necessary to afford protection against operations not under this 31

1 agreement and such as may be specifically approved by the Supervisor 1  
2 and the Land Commissioner, shall be drilled except in accordance 2  
3 with a plan of development approved as herein provided. 3

4 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well 4  
5 capable of producing unitized substances in paying quantities or as 5  
6 soon thereafter as required by the Supervisor or the Land Commission- 6  
7 er, the Unit Operator shall submit for approval by the Supervisor 7  
8 and the Land Commissioner a schedule, based on subdivisions of the 8  
9 public-land survey or aliquot parts thereof, of all land then re- 9  
10 garded as reasonably proved to be productive in paying quantities; 10  
11 all lands in said schedule on approval of the Supervisor and the Land 11  
12 Commissioner to constitute a participating area, effective as of the 12  
13 date of completion of such well or the effective date of this unit 13  
14 agreement, whichever is later. The acreages of both Federal and non- 14  
15 Federal lands shall be based upon appropriate computations from the 15  
16 courses and distances shown on the last approved public-land survey 16  
17 as of the effective date of each initial participating area. Said 17  
18 schedule shall also set forth the percentage of unitized substances 18  
19 to be allocated as herein provided to each tract in the participating 19  
20 area so established, and shall govern the allocation of production 20  
21 commencing with the effective date of the participating area. A 21  
22 separate participating area shall be established for each separate 22  
23 pool or deposit of unitized substances or for any group thereof which 23  
24 is produced as a single pool or zone, and any two or more partici- 24  
25 pating areas so established may be combined into one, on approval of 25  
26 the Supervisor and the Land Commissioner. When production from two 26  
27 or more participating areas, so established, is subsequently found 27  
28 to be from a common pool or deposit said participating areas shall 28  
29 be combined into one effective as of such appropriate date as may be 29  
30 approved or prescribed by the Supervisor and the Land Commissioner. 30  
31 The participating area or areas so established shall be revised from 31

1 time to time, subject to like approval, to include additional land 1  
2 then regarded as reasonably proved to be productive in paying quan- 2  
3 titles or necessary for unit operations, or to exclude land then 3  
4 regarded as reasonably proved not to be productive in paying quan- 4  
5 titles and the schedule of allocation percentages shall be revised 5  
6 accordingly. The effective date of any revision shall be the first 6  
7 of the month in which is obtained the knowledge or information on 7  
8 which such revision is predicated, provided, however, that a more 8  
9 appropriate effective date may be used if justified by the Unit 9  
10 Operator and approved by the Supervisor and the Land Commissioner. 10  
11 No land shall be excluded from a participating area on account of 11  
12 depletion of the unitized substances, except that any participating 12  
13 area established under the provisions of this unit agreement shall 13  
14 terminate automatically whenever all completions in the formation on 14  
15 which the participating area is based are abandoned. 15

16 It is the intent of this section that a participating area 16  
17 shall represent the area known or reasonably estimated to be produc- 17  
18 tive in paying quantities; but, regardless of any revision of the 18  
19 participating area, nothing herein contained shall be construed as 19  
20 requiring any retroactive adjustment for production obtained prior 20  
21 to the effective date of the revision of the participating area. 21

22 In the absence of agreement at any time between the Unit 22  
23 Operator and the Supervisor and the Land Commissioner as to the 23  
24 proper definition or redefinition of a participating area, or until 24  
25 a participating area has, or areas have, been established as pro- 25  
26 vided herein, the portion of all payments affected thereby shall be 26  
27 impounded in a manner mutually acceptable to the owners of working 27  
28 interests and the Supervisor and the Land Commissioner. Royalties 28  
29 due the United States shall be determined by the Supervisor for 29  
30 Federal lands and the Land Commissioner for State lands and the 30  
31 amount thereof shall be deposited, as directed by the Supervisor and 31

1 the Land Commissioner, to be held as unearned money until a partici- 1  
2 pating area is finally approved and then applied as earned or re- 2  
3 turned in accordance with a determination of the sum due as Federal 3  
4 and State royalty on the basis of such approved participating area. 4

5 Whenever it is determined, subject to the approval of the 5  
6 Supervisor and the Land Commissioner, that a well drilled under this 6  
7 agreement is not capable of production in paying quantities and in- 7  
8 clusion of the land on which it is situated in a participating area 8  
9 is unwarranted, production from such well shall, for the purposes of 9  
10 settlement among all parties other than working interest owners, be 10  
11 allocated to the land on which the well is located unless such land 11  
12 is already within the participating area established for the pool 12  
13 or deposit from which such production is obtained. Settlement for 13  
14 working interest benefits from such a well shall be made as provided 14  
15 in the unit operating agreement. 15

16 12. ALLOCATION OF PRODUCTION. All unitized substances pro- 16  
17 duced from each participating area established under this agreement, 17  
18 except any part thereof used in conformity with good operating prac- 18  
19 tices within the unitized area for drilling, operating, camp and 19  
20 other production or development purposes, for repressuring or re- 20  
21 cycling in accordance with a plan of development approved by the 21  
22 Supervisor and Land Commissioner, or unavoidably lost, shall be 22  
23 deemed to be produced equally on an acreage basis from the several 23  
24 tracts of unitized land of the participating area established for 24  
25 such production and, for the purpose of determining any benefits 25  
26 accruing under this agreement, each such tract of unitized land shall 26  
27 have allocated to it such percentage of said production as the num- 27  
28 ber of acres of such tract included in said participating area bears 28  
29 to the total acres of unitized land in said participating area, ex- 29  
30 cept that allocation of production hereunder for purposes other than 30  
31 for settlement of the royalty, overriding royalty, or payment out of 31



1 production obligations of the respective working interest owners, 1  
2 shall be on the basis prescribed in the unit operating agreement 2  
3 whether in conformity with the basis of allocation herein set forth 3  
4 or otherwise. It is hereby agreed that production of unitized sub- 4  
5 stances from a participating area shall be allocated as provided 5  
6 herein regardless of whether any wells are drilled on any particular 6  
7 part or tract of said participating area. If any gas produced from 7  
8 one participating area is used for repressuring or recycling pur- 8  
9 poses in another participating area, the first gas withdrawn from 9  
10 such last-mentioned participating area for sale during the life of 10  
11 this agreement shall be considered to be the gas so transferred un- 11  
12 til an amount equal to that transferred shall be so produced for 12  
13 sale and such gas shall be allocated to the participating area from 13  
14 which initially produced as such area was last defined at the time 14  
15 of such final production. 15

16 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR 16  
17 FORMATIONS. Any party hereto owning or controlling the working 17  
18 interest in any unitized land having thereon a regular well location 18  
19 may with the approval of the Supervisor and the Land Commissioner, 19  
20 at such party's sole risk, costs, and expense, drill a well to test 20  
21 any formation for which a participating area has not been established 21  
22 or to test any formation for which a participating area has been 22  
23 established if such location is not within said participating area, 23  
24 unless within 90 days of receipt of notice from said party of his 24  
25 intention to drill the well the Unit Operator elects and commences 25  
26 to drill such a well in like manner as other wells are drilled by 26  
27 the Unit Operator under this agreement. 27

28 If any well drilled as aforesaid by a working interest owner 28  
29 results in production such that the land upon which it is situated 29  
30 may properly be included in a participating area, such participating 30  
31 area shall be established or enlarged as provided in this agreement 31

1	and the well shall thereafter be operated by the Unit Operator in	1
2	accordance with the terms of this agreement and the unit operating	2
3	agreement.	3
4	If any well drilled as aforesaid by a working interest owner	4
5	obtains production in quantities insufficient to justify the in-	5
6	clusion of the land upon which such well is situated in a partici-	6
7	pating area, such well may be operated and produced by the party	7
8	drilling the same subject to the conservation requirements of this	8
9	agreement. The royalties in amount or value of production from any	9
10	such well shall be paid as specified in the underlying lease and	10
11	agreements affected.	11
12	14. ROYALTY SETTLEMENT. The United States and any State	12
13	and any royalty owner who, is entitled to take in kind a share of	13
14	the substances now unitized hereunder shall hereafter be entitled	14
15	to the right to take in kind its share of the unitized substances,	15
16	and Unit Operator, or the working interest owner in case of the	16
17	operation of a well by a working interest owner as herein provided	17
18	for in special cases, shall make deliveries of such royalty share	18
19	taken in kind in conformity with the applicable contracts, laws,	19
20	and regulations. Settlement for royalty interest not taken in kind	20
21	shall be made by working interest owners responsible therefor under	21
22	existing contracts, laws and regulations, or by the Unit Operator,	22
23	on or before the last day of each month for unitized substances	23
24	produced during the preceding calendar month; provided, however,	24
25	that nothing herein contained shall operate to relieve the lessees	25
26	of any land from their respective lease obligations for the pay-	26
27	ment of any royalties due under their leases.	27
28	If gas obtained from lands not subject to this agreement is	28
29	introduced into any participating area hereunder, for use in re-	29
30	pressuring, stimulation of production, or increasing ultimate re-	30
31	covery, in conformity with a plan of operations approved by the	31

1 Supervisor and the Land Commissioner, a like amount of gas, after 1  
2 settlement as herein provided for any gas transferred from any other 2  
3 participating area and with appropriate deduction for loss from any 3  
4 cause, may be withdrawn from the formation into which the gas is 4  
5 introduced, royalty free as to dry gas, but not as to any products 5  
6 which may be extracted therefrom; provided that such withdrawal 6  
7 shall be at such time as may be provided in the approved plan of 7  
8 operations or as may otherwise be consented to by the Supervisor and 8  
9 the Land Commissioner as conforming to good petroleum engineering 9  
10 practice; and provided further, that such right of withdrawal shall 10  
11 terminate on the termination of this unit agreement. 11

12 Royalty due the United States shall be computed as provided 12  
13 in the operating regulations and paid in value or delivered in kind 13  
14 as to all unitized substances on the basis of the amounts thereof 14  
15 allocated to unitized Federal land as provided herein at the rates 15  
16 specified in the respective Federal leases, or at such lower rate 16  
17 or rates as may be authorized by law or regulation; provided, that 17  
18 for leases on which the royalty rate depends on the daily average 18  
19 production per well, said average production shall be determined in 19  
20 accordance with the operating regulations as though each partici- 20  
21 pating area were a single consolidated lease. 21

22 Royalty due on account of State lands shall be computed and 22  
23 paid on the basis of all unitized substances allocated to such lands 23

24 15. RENTAL SETTLEMENT. Rental or minimum royalties due 24  
25 on leases committed hereto shall be paid by working interest owners 25  
26 responsible therefor under existing contracts, laws, and regulations 26  
27 provided that nothing herein contained shall operate to relieve the 27  
28 lessees of any land from their respective lease obligations for the 28  
29 payment of any rental or minimum royalty due under their leases. 29  
30 Rental or minimum royalty for lands of the United States subject to 30  
31 this agreement shall be paid at the rate specified in the respective 31

1 leases from the United States unless such rental or minimum royalty 1  
2 is waived, suspended, or reduced by law or by approval of the Secre- 2  
3 tary or his duly authorized representative. 3

4 Rentals on State of New Mexico lands subject to this agree- 4  
5 ment shall be paid at the rates specified in the respective leases. 5

6 With respect to any lease on non-Federal land containing pro- 6  
7 visions which would terminate such lease unless drilling operations 7  
8 are commenced upon the land covered thereby within the time therein 8  
9 specified or rentals are paid for the privilege of deferring such 9  
10 drilling operations, the rentals required thereby shall, notwith- 10  
11 standing any other provision of this agreement, be deemed to accrue 11  
12 and become payable during the term thereof as extended by this agree- 12  
13 ment and until the required drilling operations are commenced upon 13  
14 the land covered thereby or until some portion of such land is in- 14  
15 cluded within a participating area. 15

16 16. CONSERVATION. Operations hereunder and production of 16  
17 unitized substances shall be conducted to provide for the most econ- 17  
18 omical and efficient recovery of said substances without waste, as 18  
19 defined by or pursuant to State or Federal law or regulation. 19

20 17. DRAINAGE. The Unit Operator shall take such measures 20  
21 as the Supervisor and Land Commissioner deem appropriate and ade- 21  
22 quate to prevent drainage of unitized substances from unitized land 22  
23 by wells on land not subject to this agreement. 23

24 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, 24  
25 conditions, and provisions of all leases, subleases, and other con- 25  
26 tracts relating to exploration, drilling, development, or operation 26  
27 for oil or gas on lands committed to this agreement are hereby ex- 27  
28 pressly modified and amended to the extent necessary to make the 28  
29 same conform to the provisions hereof, but otherwise to remain in 29  
30 full force and effect; and the parties hereto hereby consent that 30  
31 the Secretary, as to Federal leases and the Land Commissioner, as to 31

1 State leases, shall and each by his approval hereof, or by the 1  
2 approval hereof by his duly authorized representative, does hereby 2  
3 establish, alter, change, or revoke the drilling, producing, rental, 3  
4 minimum royalty, and royalty requirements of Federal and State 4  
5 leases committed hereto and the regulations in respect thereto to 5  
6 conform said requirements to the provisions of this agreement, and, 6  
7 without limiting the generality of the foregoing, all leases, sub- 7  
8 leases, and contracts are particularly modified in accordance with 8  
9 the following: 9

10 (a) The development and operation of lands subject to this 10  
11 agreement under the terms hereof shall be deemed full performance of 11  
12 all obligations for development and operation with respect to each 12  
13 and every separately owned tract subject to this agreement, regard- 13  
14 less of whether there is any development of any particular tract of 14  
15 the unit area. 15

16 (b) Drilling and producing operations performed hereunder 16  
17 upon any tract of unitized lands will be accepted and deemed to be 17  
18 performed upon and for the benefit of each and every tract of uni- 18  
19 tized land, and no lease shall be deemed to expire by reason of 19  
20 failure to drill or produce wells situated on the land therein em- 20  
21 braced. 21

22 (c) Suspension of drilling or producing operations on all 22  
23 unitized lands pursuant to direction or consent of the Secretary and 23  
24 the Land Commissioner, or his duly authorized representative, shall 24  
25 be deemed to constitute such suspension pursuant to such direction 25  
26 or consent as to each and every tract of unitized land. A suspension 26  
27 of drilling or producing operations limited to specified lands shall 27  
28 be applicable only to such lands. 28

29 (d) Each lease, sublease or contract relating to the ex- 29  
30 ploration, drilling, development or operation for oil or gas of 30  
31 lands other than those of the United States and State of New Mexico 31

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

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

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

28 (g) The segregation of any Federal lease committed to this 28  
29 agreement is governed by the following provision in the fourth para- 29  
30 graph of Sec. 17(j) of the Mineral Leasing Act, as amended by the 30  
31 Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease 31

1 heretofore or hereafter committed to any such (unit) plan embracing 1  
2 lands that are in part within and in part outside of the area 2  
3 covered by any such plan shall be segregated into separate leases 3  
4 as to the lands committed and the lands not committed as of the 4  
5 effective date of unitization: Provided, however, That any such 5  
6 lease as to the nonunitized portion shall continue in force and 6  
7 effect for the term thereof but for not less than two years from 7  
8 the date of such segregation and so long thereafter as oil or gas is 8  
9 produced in paying quantities." 9

10 (h) Any lease embracing lands of the State of New Mexico 10  
11 which is made subject to this agreement, shall continue in force 11  
12 beyond the term provided therein as to the lands committed hereto 12  
13 until the termination hereof. 13

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

1 or gas; said lease shall continue in full force and effect as to all 1  
2 of the lands embraced therein, so long thereafter as oil or gas in 2  
3 paying quantities is being produced from any portion of said lands. 3

4 19. COVENANTS RUN WITH LAND. The covenants herein shall 4  
5 be construed to be covenants running with the land with respect to 5  
6 the interest of the parties hereto and their successors in interest 6  
7 until this agreement terminates, and any grant, transfer, or convey- 7  
8 ance, of interest in land or leases subject hereto shall be and here- 8  
9 by is conditioned upon the assumption of all privileges and obli- 9  
10 gations hereunder by the grantee, transferee, or other successor in 10  
11 interest. No assignment or transfer of any working interest, roy- 11  
12 alty, or other interest subject hereto shall be binding upon Unit 12  
13 Operator until the first day of the calendar month after Unit Opera- 13  
14 tor is furnished with the original, photostatic, or certified copy 14  
15 of the instrument of transfer. 15

16 20. EFFECTIVE DATE AND TERM. This agreement shall become 16  
17 effective upon approval by the Secretary and the Land Commissioner 17  
18 or their duly authorized representatives, and shall terminate five (5) 18  
19 years from said effective date unless 19

20 (a) such date of expiration is extended by the Director and 20  
21 the Land Commissioner, or 21

22 (b) it is reasonably determined prior to the expiration of 22  
23 the fixed term or any extension thereof that the unitized land is 23  
24 incapable of production of unitized substances in paying quantities 24  
25 in the formations tested hereunder and after notice of intention to 25  
26 terminate the agreement on such ground is given by the Unit Operator 26  
27 to all parties in interest at their last known addresses, the agree- 27  
28 ment is terminated with the approval of the Supervisor and the Land 28  
29 Commissioner, or 29

30 (c) a valuable discovery of unitized substances has been 30  
31 made or accepted on unitized land during said initial term or any 31



1 extension thereof, in which event the agreement shall remain in 1  
2 effect for such term and so long as unitized substances can be pro- 2  
3 duced in quantities sufficient to pay for the cost of producing 3  
4 same from wells on unitized land within any participating area es- 4  
5 tablished hereunder and, should production cease, so long thereafter 5  
6 as diligent operations are in progress for the restoration of pro- 6  
7 duction or discovery of new production and so long thereafter as 7  
8 unitized substances so discovered can be produced as aforesaid, or 8  
9 (d) it is terminated as heretofore provided in this agree- 9  
10 ment. This agreement may be terminated at any time by not less than 10  
11 75 per centum, on an acreage basis, of the working interest owners 11  
12 signatory hereto, with the approval of the Supervisor and the Land 12  
13 Commissioner; notice of any such approval to be given by the Unit 13  
14 Operator to all parties hereto. 14  
15 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The 15  
16 Director is hereby vested with authority to alter or modify from 16  
17 time to time in his discretion the quantity and rate of production 17  
18 under this agreement when such quantity and rate is not fixed pur- 18  
19 suant to Federal or State law or does not conform to any state-wide 19  
20 voluntary conservation or allocation program, which is established, 20  
21 recognized, and generally adhered to by the majority of operators 21  
22 in such State, such authority being hereby limited to alteration or 22  
23 modification in the public interest, the purpose thereof and the 23  
24 public interest to be served thereby to be stated in the order of 24  
25 alteration or modification. Without regard to the foregoing, the 25  
26 Director and the Commissioner are also hereby vested with authority 26  
27 to alter or modify from time to time in his discretion the rate of 27  
28 prospecting and development and the quantity and rate of production 28  
29 under this agreement when such alteration or modification is in the 29  
30 interest of attaining the conservation objectives stated in this 30  
31 agreement and is not in violation of any applicable Federal or State 31  
law.

1 Powers in this section vested in the Director and the Com- 1  
2 missioner shall only be exercised after notice to Unit Operator and 2  
3 opportunity for hearing to be held not less than 15 days from notice. 3

4 22. APPEARANCES. Unit Operator shall, after notice to other 4  
5 parties affected, have the right to appear for and on behalf of any 5  
6 and all interests affected hereby before the Department of the 6  
7 Interior and the Commissioner of Public Lands and to appeal from 7  
8 orders issued under the regulations of said Department or Land 8  
9 Commissioner or to apply for relief from any of said regulations or 9  
10 in any proceedings relative to operations before the Department of 10  
11 the Interior or the Land Commissioner or any other legally consti- 11  
12 tuted authority; provided, however, that any other interested party 12  
13 shall also have the right at his own expense to be heard in any such 13  
14 proceeding. 14

15 23. NOTICES. All notices, demands or statements required 15  
16 hereunder to be given or rendered to the parties hereto shall be 16  
17 deemed fully given if given in writing and personally delivered to 17  
18 the party or sent by postpaid registered or certified mail, addressed 18  
19 to such party or parties at their respective addresses set forth in 19  
20 connection with the signatures hereto or to the ratification or con- 20  
21 sent hereof or to such other address as any such party may have fur- 21  
22 nished in writing to party sending the notice, demand or statement. 22

23 24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement 23  
24 contained shall be construed as a waiver by any party hereto of the 24  
25 right to assert any legal or constitutional right or defense as to 25  
26 the validity or invalidity of any law of the State wherein said uni- 26  
27 tized lands are located, or of the United States, or regulations 27  
28 issued thereunder in any way affecting such party, or as a waiver by 28  
29 any such party of any right beyond his or its authority to waive. 29

30 25. UNAVOIDABLE DELAY. All obligations under this agree- 30  
31 ment requiring the Unit Operator to commence or continue drilling or 31

1 to operate on or produce unitized substances from any of the lands 1  
2 covered by this agreement shall be suspended while the Unit Operator 2  
3 despite the exercise of due care and diligence, is prevented from 3  
4 complying with such obligations, in whole or in part, by strikes, 4  
5 acts of God, Federal, State, or municipal law or agencies, unavail- 5  
6 able accidents, uncontrollable delays in transportation, inability 6  
7 to obtain necessary materials in open market, or other matters be- 7  
8 yond the reasonable control of the Unit Operator whether similar to 8  
9 matters herein enumerated or not. No unit obligation which is sus- 9  
10 pended under this section shall become due less than thirty (30) 10  
11 days after it has been determined that the suspension is no longer 11  
12 applicable. Determination of creditable "Unavoidable Delay" time 12  
13 shall be made by the unit operator subject to approval of the Super- 13  
14 visor and the Land Commissioner. 14

15 26. NONDISCRIMINATION. In connection with the performance 15  
16 of work under this agreement, the operator agrees to comply with 16  
17 all the provisions of section 202 (1) to (7) inclusive of Executive 17  
18 Order 11246 (30 F.R. 12319), which are hereby incorporated by refer- 18  
19 ence in this agreement. 19

20 27. LOSS OF TITLE. In the event title to any tract of 20  
21 unitized land shall fail and the true owner cannot be induced to 21  
22 join in this unit agreement, such tract shall be automatically re- 22  
23 garded as not committed hereto and there shall be such readjustment 23  
24 of future costs and benefits as may be required on account of the 24  
25 loss of such title. In the event of a dispute as to title as to any 25  
26 royalty, working interest, or other interests subject thereto, pay- 26  
27 ment or delivery on account thereof may be withheld without liability 27  
28 for interest until the dispute is finally settled; provided, that, 28  
29 as to Federal and State land or leases, no payments of funds due 29  
30 the United States or the State of New Mexico should be withheld, but 30  
31 such funds shall be deposited as directed by the Supervisor and such 31

1 funds of the State of New Mexico shall be deposited as directed by 1  
2 the Land Commissioner, to be held as unearned money pending final 2  
3 settlement of the title dispute, and then applied as earned or re- 3  
4 turned in accordance with such final settlement. 4  
5 Unit Operator as such is relieved from any responsibility 5  
6 for any defect or failure of any title hereunder. 6  
7 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of 7  
8 any substantial interest in a tract within the unit area fails or 8  
9 refuses to subscribe or consent to this agreement, the owner of the 9  
10 working interest in that tract may withdraw said tract from this 10  
11 agreement by written notice delivered to the Supervisor and the 11  
12 Land Commissioner and the Unit Operator prior to the approval of 12  
13 this agreement by the Supervisor. Any oil or gas interests in lands 13  
14 within the unit area not committed hereto prior to submission of 14  
15 this agreement for final approval may thereafter be committed hereto 15  
16 by the owner or owners thereof subscribing or consenting to this 16  
17 agreement, and, if the interest is a working interest, by the owner 17  
18 of such interest also subscribing to the unit operating agreement. 18  
19 After operations are commenced hereunder, the right of subsequent 19  
20 joinder, as provided in this section, by a working interest owner 20  
21 is subject to such requirements or approvals, if any, pertaining to 21  
22 such joinder, as may be provided for in the unit operating agree- 22  
23 ment. After final approval hereof, joinder by a non-working inter- 23  
24 est owner must be consented to in writing by the working interest 24  
25 owner committed hereto and responsible for the payment of any bene- 25  
26 fits that may accrue hereunder in behalf of such non-working inter- 26  
27 est. A non-working interest may not be committed to this unit 27  
28 unless the corresponding working interest is committed hereto. 28  
29 Joinder to the unit agreement by a working-interest owner, at any 29  
30 time, must be accompanied by appropriate joinder to the unit opera- 30  
31 ting agreement, if more than one committed working-interest owner 31

1 is involved, in order for the interest to be regarded as committed 1  
2 to this unit agreement. Except as may otherwise herein be provided, 2  
3 subsequent joinders to this agreement shall be effective as of the 3  
4 first day of the month following the filing with the Supervisor and 4  
5 the Land Commissioner of duly executed counterparts of all or any 5  
6 papers necessary to establish effective commitment of any tract to 6  
7 this agreement unless objection to such joinder is duly made within 7  
8 60 days by the Supervisor and the Land Commissioner. 8

9 29. COUNTERPARTS. This agreement may be executed in any 9  
10 number of counterparts no one of which needs to be executed by all 10  
11 parties or may be ratified or consented to by separate instrument in 11  
12 writing specifically referring hereto and shall be binding upon all 12  
13 those parties who have executed such a counterpart, ratification, 13  
14 or consent hereto with the same force and effect as if all such 14  
15 parties had signed the same document and regardless of whether or 15  
16 not it is executed by all other parties owning or claiming an inter- 16  
17 est in the lands within the above-described unit area. 17

18 30. SURRENDER. Nothing in this agreement shall prohibit 18  
19 the exercise by any working interest owner of the right to surrender 19  
20 vested in such party by any lease, sublease, or operating agreement 20  
21 as to all or any part of the lands covered thereby, provided that 21  
22 each party who will or might acquire such working interest by such 22  
23 surrender or by forfeiture as hereafter set forth, is bound by the 23  
24 terms of this agreement. 24

25 If as a result of any such surrender the working interest 25  
26 rights as to such lands become vested in any party other than the 26  
27 fee owner of the unitized substances, said party may forfeit such 27  
28 rights and further benefits from operation hereunder as to said 28  
29 land to the party next in the chain of title who shall be and become 29  
30 the owner of such working interest. 30

31 If as the result of any such surrender or forfeiture working 31

1 interest rights become vested in the fee owner of the unitized sub-  
2 stances, such owner may:

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

5 (2) Lease the portion of such land as is included in a  
6 participating area established hereunder subject to this agreement  
7 and the unit operating agreement.

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

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

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

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

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

7 31. TAXES. The working interest owners shall render and 7  
8 pay for their account and the account of the royalty owners all 8  
9 valid taxes on or measured by the unitized substances in and under 9  
10 or that may be produced, gathered and sold from the land subject to 10  
11 this contract after the effective date of this agreement, or upon 11  
12 the proceeds derived therefrom. The working interest owners on each 12  
13 tract shall and may charge the proper proportion of said taxes to 13  
14 the royalty owners having interests in said tract, and may currently 14  
15 retain and deduct sufficient of the unitized substances or deriva- 15  
16 tive products, or net proceeds thereof from the allocated share of 16  
17 each royalty owner to secure reimbursement for the taxes so paid. 17  
18 No such taxes shall be charged to the United States or the State of 18  
19 New Mexico or to any lessor who has a contract with his lessee which 19  
20 requires the lessee to pay such taxes. 20

21 32. NO PARTNERSHIP. It is expressly agreed that the re- 21  
22 lation of the parties hereto is that of independent contractors and 22  
23 nothing in this agreement contained, expressed or implied, nor any 23  
24 operations conducted hereunder, shall create or be deemed to have 24  
25 created a partnership or association between the parties hereto or 25  
26 any of them. 26

27 33. CONFLICT OF SUPERVISION. Neither the Unit Operator 27  
28 nor the working interest owners, nor any of them, shall be subject 28  
29 to any forfeiture, termination or expiration of any right hereunder 29  
30 or under any leases or contracts subject hereto, or to any penalty 30  
31 or liability on account of delay or failure in whole or in part to 31

1 comply with any applicable provisions thereof to the extent that 1  
2 the said Unit Operator or the working interest owners, or any of 2  
3 them, are hindered, delayed or prevented from complying therewith 3  
4 by reason of failure of the Unit Operator to obtain, in the exercise 4  
5 of due diligence, the concurrence of proper representatives of the 5  
6 United States and proper representatives of the State of New Mexico 6  
7 in and about any matters or things concerning which it is required 7  
8 herein that such concurrence be obtained. The parties hereto, in- 8  
9 cluding the State Commission, agree that all powers and authority 9  
10 vested in the State Commission in and by any provisions of this 10  
11 agreement are vested in the State Commission and shall be exercised 11  
12 by it pursuant to the provisions of the laws of the State of New 12  
13 Mexico and subject in any case to appeal or judicial review as may 13  
14 now or hereafter be provided by the laws of the State of New Mexico. 14

15 IN WITNESS WHEREOF, the parties hereto have caused this agree- 15  
16 ment to be executed and have set opposite their respective names 16  
17 the date of execution. 17

18 UNIT OPERATOR AND WORKING INTEREST OWNER 18

19 ATTEST: AMERICAN QUASAR PETROLEUM CO. 19

20 By: \_\_\_\_\_ By: \_\_\_\_\_ 20  
21 Secretary President 21

22 Address: 606 Vaughn Building 22  
23 Midland, Texas 79701 23

24 WORKING INTEREST OWNERS 24

25 ATLANTIC RICHFIELD COMPANY 25

26 By: \_\_\_\_\_ 26

27 Date \_\_\_\_\_ 27

28 Address \_\_\_\_\_ 28

29 \_\_\_\_\_ 29



CORPORATE

STATE OF New Mexico   ↓  
COUNTY OF Eddy       ↓

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day  
of \_\_\_\_\_, 1973, by TED COLLINS, JR. Who is Vice  
President of American Quasar Petroleum Co. of New Mexico, a New  
Mexico Corporation, for and on behalf of said Corporation.

MY COMMISSION EXPIRES: \_\_\_\_\_  
Notary Public

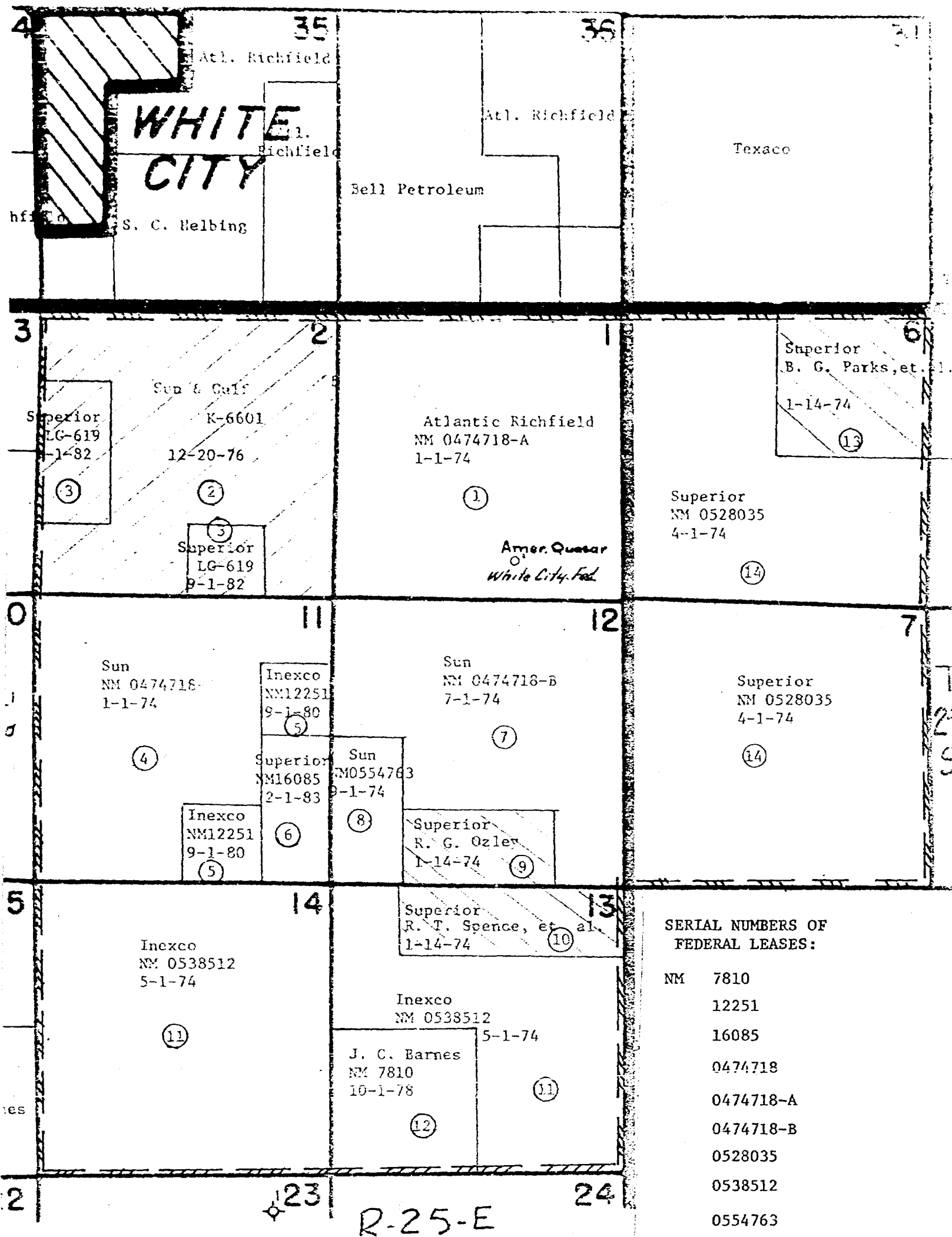
CORPORATE

STATE OF New Mexico   ↓  
COUNTY OF Eddy       ↓

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day  
of \_\_\_\_\_, 1973, by \_\_\_\_\_ who is Attorney  
in-Fact for ATLANTIC RICHFIELD COMPANY a Delaware Corporation,  
for and on behalf of said Corporation.

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

MY COMMISSION EXPIRES: \_\_\_\_\_



SERIAL NUMBERS OF  
FEDERAL LEASES:

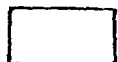
NM 7810  
12251  
16085  
0474718  
0474718-A  
0474718-B  
0528035  
0538512  
0554763

EXHIBIT "A"  
WHITE CITY UNIT  
EDDY COUNTY, NEW MEXICO

--- OUTLINE OF UNIT AREA

①

TRACT NUMBER



FEDERAL LAND, 4,120.00 ACRES  
80.47% OF UNIT AREA



STATE LAND, 640.56 ACRES  
12.51% OF UNIT AREA



PATENTED (FEE) LAND, 359.40 ACRES  
7.02% OF UNIT AREA

TOTAL 5,119.96 ACRES

EXHIBIT "B"  
SCHEDULE OF LANDS AND LEASES  
WHITE CITY UNIT AREA  
EDDY COUNTY, NEW MEXICO

LEDDY COUNTY, NEW MEXICO									
Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Overriding		Working Interest	
						Royalty Owner and Percentage	Interest	Royalty Owner and Percentage	Interest
FEDERAL LANDS									
TOWNSHIP 25 SOUTH, RANGE 25 EAST, N.M.P.M.									
1	Section 1: Lots 1,2,3,4, S/2 N/2 and S/2	640.42	N.M. 0474718-A 12-31-73	U.S.A. 12.5	Atlantic Richfield Co.	All	Beulah Ray Leggett	3.00	Atlantic Richfield Co. All
4	Section 11: N/2 N/2, SW/4 NE/4, S/2 NW/4, SW/4 and NW/4 SE/4	479.98	N.M. 0474718 12-31-73	U.S.A. 12.5	Sun Oil Co. (Delaware)	All	Beulah Ray Leggett	6.25	Sun Oil Co.(Del) All
5	Section 11: SE/4 NE/4 and SW/4 SE/4	80.00	N.M. 12251 8-31-80	U.S.A. 12.5	Inexco Oil Co.	All	None		Inexco Oil Co. All
6	Section 11: E/2 SE/4	80.00	N.M. 16085 1-31-83	U.S.A. 12.5	Superior Oil Co.	All	Seymour S. Smith	5.00	Superior Oil Co. All
7	Section 12: N/2, NE/4 SW/4, N/2 SE/4 and SE/4 SE/4	480.00	N.M. 0474718-B 12-31-73	U.S.A. 12.5	Sun Oil Co. (Delaware)	All	Beulah Ray Leggett	3.00	Sun Oil Co.(Del) All
8	Section 12: W/2 SW/4	80.00	N.M. 0554763 8-31-74	U.S.A. 12.5	Sun Oil Co. (Delaware)	All	A.G. Andrikopoulos	5.00	Sun Oil Co. (Del) All

Exhibit "B" Page Two

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage
11	Section 13: NW/4 NW/4, S/2 N/2 and SE/4	1,000.00	NM 0538512 4-30-74	U.S.A. 12.5	Inexco Oil Co.	All	Sam Glasser \$600 Per/Ac. out of	3.00 Inexco Oil Co. All
	Section 14: All							
12	Section 13: SW/4	160.00	NM 7810 9-30-78	U.S.A. 12.5	J. C. Barnes, Sr.	All	Royce E. Lawson William M. Holcomb 3.00	2.00 J. E. Barnes, Sr. All
	TOWNSHIP 25 SOUTH, RANGE 26 EAST, N.M.P.M.							
14	Section 6: Lots 3, 4, 5, 6, 7, SE/4 NW/4, E/2 SW/4 and SE/4	1,119.60	NM 0528035	U.S.A. 12.5	Superior Oil Co.	All	Marvin Davis	3.00 Superior Oil Co. All
	Section 7: Lots 1, 2, 3, 4, E/2 W/2 and E/2							
TOTAL		4,120.00	Acres Federal Lands					

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	STATE OF NEW MEXICO LANDS			Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage	
					Lessee of Record	Interest				
TOWNSHIP 25 SOUTH, RANGE 25 EAST										
2	Section 2: Lots 520.56 1,2,3,4, SE/4 NW/4, S/2 NE/4, NE/4 SW/4, S/2 SW/4, N/2 SE/4 and SE/4 SE/4		K-6601 12-20-76	State of N.M. 12.5	Sun Oil Co. (Delaware)	All	Stephen C. Helbing	5.469	Sun Oil Co. (Del) Gulf Oil Corp.	87.5 12.5
3	Section 2: SW/4 NW/4, NW/4 SW/4 and SW/4 SE/4	120.00	LG-619 9-1-82	State of N.M. 12.5	Superior Oil Co.	All	None		Superior Oil Co.	All

TOTAL 640.56 Acres, State of New Mexico Lands

PATENTED (FEE) LANDS

TOWNSHIP 25 SOUTH, RANGE 25 EAST									
9	Section 12: SE/4 SW/4 and SW/4 SE/4	80.00	Fee 1-14-74	R. G. Ozley All	Superior Oil Co.*				

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage

## PATENTED (FEE) LANDS

## TOWNSHIP 25 SOUTH, RANGE 25 EAST

10	Section 13: N/2 NE/4 and NE/4 NW/4	120.00	Fee 1-14-74	Helen M. Sears & the Estate of James P. Sears, Dec.	25.00	Superior Oil Co.*		
				Margaret Spence Lester A. Parks Bobby G. Parks Clyde R. Jones	25.00 18.75 18.75 12.50			

## TOWNSHIP 25 SOUTH, RANGE 26 EAST

13	Section 6: Lots 1, 2 and S/2 NE/4	159.40	Fee 1-14-74	Helen M. Sears & the estate of James P. Sears, Dec. Margaret Spence Lester A. Parks Bobby G. Parks R. N. Thomas	25.000	Superior Oil Co.*		
				25.000 21.875 21.875 6.250				

\* New Leases are being negotiated and it is anticipated that such will be committed to the Unit Area, with American Quasar Petroleum Co. of New Mexico owning 100% of the Working interest and Superior Oil Co. owning a 1/16th of 8/8ths overriding royalty interest.

TOTAL 359.40 Acres, Patented (Fee) Lands

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage
		4,120.00	Acres Federal Lands,					
		640.56	Acres State Lands,					
		359.40	Acres Fee Lands,					
		5,119.96						
						80.47% of the Unit		
						12.51% of the Unit		
						7.02% of the Unit		
						100.00%		

RECAPITULATION

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
WHITE CITY UNIT AREA  
COUNTY OF EDDY  
STATE OF NEW MEXICO  
NO. 2732

THIS AGREEMENT, entered into as of the 1st day of December, 1973, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto".

W I T N E S S E T H:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 7-11-29 N.M. Statutes 1953 Annotated) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interest of the State of New Mexico; and,



1 WHEREAS, the Oil Conservation Commission of the State of New 1  
2 Mexico is authorized by an Act of the Legislature (Chapter 72, Laws 2  
3 of 1935, as amended by Chapter 193, Laws of 1937, Chapter 166, Laws 3  
4 of 1941, and Chapter 168, Laws of 1949) to approve this agreement 4  
5 and the conservation provisions hereof; and, 5

6 WHEREAS, the parties hereto hold sufficient interests in the 6  
7 White City Unit Area covering the land hereinafter described 7  
8 to give reasonably effective control of operations therein; and 8

9 WHEREAS, it is the purpose of the parties hereto to conserve 9  
10 natural resources, prevent waste, and secure other benefits obtain- 10  
11 able through development and operation of the area subject to this 11  
12 agreement under the terms, conditions, and limitations herein set 12  
13 forth; 13

14 NOW, THEREFORE, in consideration of the premises and the 14  
15 promises herein contained, the parties hereto commit to this agree- 15  
16 ment their respective interests in the below-defined unit area, and 16  
17 agree severally among themselves as follows: 17

18 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 18  
19 February 25, 1920, as amended, supra, and all valid pertinent regu- 19  
20 lations, including operating and unit plan regulations, heretofore 20  
21 issued thereunder or valid, pertinent, and reasonable regulations 21  
22 hereafter issued thereunder are accepted and made a part of this 22  
23 agreement as to Federal lands, provided such regulations are not in- 23  
24 consistent with the terms of this agreement; and as to non-Federal 24  
25 lands, the oil and gas operating regulations in effect as of the 25  
26 effective date hereof governing drilling and producing operations, 26  
27 not inconsistent with the terms hereof or the laws of the State in 27  
28 which the non-Federal land is located, are hereby accepted and made 28  
29 a part of this agreement. 29

30 2. UNIT AREA. The following described land is hereby desig- 30  
31 nated and recognized as constituting the unit area: 31

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Township 25 South, Range 25 east, NMPM  
Section 1: All  
Section 2: All  
Section 11: All  
Section 12: All  
Section 13: All  
Section 14: All

Township 25 South, Range 26 East, NMPM  
Section 6: All  
Section 7: All

Containing 5,119.96 acres, more or less

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner", and not less than five (5) copies of the Revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission".

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1           The above-described unit area shall when practicable be ex- 1  
2           panded to include therein any additional lands or shall be con- 2  
3           tracted to exclude lands whenever such expansion or contraction is 3  
4           deemed to be necessary or advisable to conform with the purposes 4  
5           of this agreement. Such expansion or contraction shall be effected 5  
6           in the following manner: 6  
7           (a) Unit Operator, on its own motion or on demand of the 7  
8           Director of the Geological Survey, hereinafter referred to as 8  
9           "Director", or on demand of the Land Commissioner, after preliminary 9  
10          concurrence by the Director, shall prepare a notice of proposed 10  
11          expansion or contraction describing the contemplated changes in the 11  
12          boundaries of the unit area, the reasons therefor, and the proposed 12  
13          effective date thereof, preferably, the first day of a month subse- 13  
14          quent to the date of notice. 14  
15          (b) Said notice shall be delivered to the Supervisor, the 15  
16          Land Commissioner and the State Commission, and copies thereof mailed 16  
17          to the last known address of each working interest owner, lessee, 17  
18          and lessor whose interests are affected, advising that thirty (30) 18  
19          days will be allowed for submission to the Unit Operator of any ob- 19  
20          jections. 20  
21          (c) Upon expiration of the 30-day period provided in the 21  
22          preceding item (b) hereof, Unit Operator shall file with the Super- 22  
23          visor, the Land Commissioner and the State Commission, evidence of 23  
24          mailing of the notice of expansion or contraction and a copy of any 24  
25          objections thereto which have been filed with the Unit Operator, to- 25  
26          gether with an application in sufficient number, for approval of 26  
27          such expansion or contraction and with appropriate joinders. 27  
28          (d) After due consideration of all pertinent information, 28  
29          the expansion or contraction shall, upon approval by the Supervisor, 29  
30          the Land Commissioner, become effective as of the date prescribed in 30  
31          the notice thereof. 31

1 (e) All legal subdivisions of lands (i.e., 40 acres by 1  
2 Government survey or its nearest lot or tract equivalent; in instan- 2  
3 ces of irregular surveys unusually large lots or tracts shall be 3  
4 considered in multiples of 40 acres or the nearest aliquot equiva- 4  
5 lent thereof), no parts of which are entitled to be in a partici- 5  
6 pating area on or before the fifth anniversary of the effective date 6  
7 of the first initial participating area established under this unit 7  
8 agreement, shall be eliminated automatically from this agreement, 8  
9 effective as of said fifth anniversary, and such lands shall no 9  
10 longer be a part of the unit area and shall no longer be subject to 10  
11 this agreement, unless diligent drilling operations are in progress 11  
12 on unitized lands not entitled to participation on said fifth anni- 12  
13 versary, in which event all such lands shall remain subject hereto 13  
14 for so long as such drilling operations are continued diligently, 14  
15 with not more than 90 days' time elapsing between the completion of 15  
16 one such well and the commencement of the next such well. All legal 16  
17 subdivisions of lands not entitled to be in a participating area 17  
18 within 10 years after the effective date of the first initial par- 18  
19 ticipating area approved under this agreement shall be automatically 19  
20 eliminated from this agreement as of said tenth anniversary. All 20  
21 lands proved productive by diligent drilling operations after the 21  
22 aforesaid 5-year period shall become participating in the same 22  
23 manner as during said 5-year period. However, when such diligent 23  
24 drilling operations cease, all nonparticipating lands shall be auto- 24  
25 matically eliminated effective as of the 91st day thereafter. The 25  
26 unit operator shall within 90 days after the effective date of any 26  
27 elimination hereunder, describe the area so eliminated to the satis- 27  
28 faction of the Supervisor and the Land Commissioner and promptly 28  
29 notify all parties in interest. 29  
30 If conditions warrant extension of the 10-year period speci- 30  
31 fied in this subsection 2(e), a single extension of not to exceed 2 31

1 years may be accomplished by consent of the owners of 90% or the 1  
2 working interests in the current nonparticipating unitized lands and 2  
3 the owners of 60% of the basic royalty interests (exclusive of the 3  
4 basic royalty interests of the United States) in nonparticipating 4  
5 unitized lands with approval of the Director and Land Commissioner, 5  
6 provided such extension application is submitted to the Director 6  
7 and the Land Commissioner not later than 60 days prior to the ex- 7  
8 piration of said 10-year period. 8

9 Any expansion of the unit area pursuant to this section which 9  
10 embraces lands theretofore eliminated pursuant to this subsection 10  
11 2(c) shall not be considered automatic commitment or recommitment 11  
12 of such lands. 12

13 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land com- 13  
14 mitted to this agreement shall constitute land referred to herein 14  
15 as "unitized land" or "land subject to this agreement". All oil 15  
16 and gas in any and all formations of the unitized land are unitized 16  
17 under the terms of this agreement and herein are called "unitized 17  
18 substances". 18

19 4. UNIT OPERATOR. American Quasar Petroleum Co. of New Mexico 19  
20 is hereby designated as Unit Operator and by signature hereto as 20  
21 Unit Operator agrees and consents to accept the duties and obligations 21  
22 of Unit Operator for the discovery, development, and production of 22  
23 unitized substances as herein provided. Whenever reference is made 23  
24 herein to the Unit Operator, such reference means the Unit Operator 24  
25 acting in that capacity and not as an owner of interest in unitized 25  
26 substances, and the term "working interest owner" when used shall 26  
27 include or 27

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

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

17 Unit Operator shall have the right to resign in like manner 17  
18 and subject to like limitations as above provided at any time a par- 18  
19 ticipating area established hereunder is in existence, but, in all 19  
20 instances of resignation or removal, until a successor unit operator 20  
21 is selected and approved as hereinafter provided, the working inter- 21  
22 est owners shall be jointly responsible for performance of the duties 22  
23 of unit operator, and shall not later than 30 days before such resig- 23  
24 nation or removal becomes effective appoint a common agent to repre- 24  
25 sent them in any action to be taken hereunder. 25

26 The resignation of Unit Operator shall not release Unit Oper- 26  
27 ator from any liability for any default by it hereunder occurring 27  
28 prior to the effective date of its resignation. 28

29 The Unit Operator may, upon default or failure in the perfor- 29  
30 mance of its duties or obligations hereunder, be subject to removal 30  
31 by the same percentage vote of the owners of working interests as 31

1 herein provided for the selection of a new Unit Operator. Such re- 1  
2 moval shall be effective upon notice thereof to the Supervisor and 2  
3 the Land Commissioner. 3

4 The resignation or removal of Unit Operator under this agree- 4  
5 ment shall not terminate its right, title, or interest as the owner 5  
6 of a working interest or other interest in unitized substances, but 6  
7 upon the resignation or removal of Unit Operator becoming effective, 7  
8 such Unit Operator shall deliver possession of all wells, equipment, 8  
9 materials, and appurtenances used in conducting the unit operations 9  
10 to the new duly qualified successor Unit Operator or to the common 10  
11 agent, if no such new Unit Operator is elected, to be used for the 11  
12 purpose of conducting unit operations hereunder. Nothing herein 12  
13 shall be construed as authorizing removal of any material, equip- 13  
14 ment and appurtenances needed for the preservation of any wells. 14

15 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall 15  
16 tender his or its resignation as Unit Operator or shall be removed 16  
17 as hereinabove provided, or a change of Unit Operator is negotiated 17  
18 by working interest owners, the owners of the working interests in 18  
19 the participating area or areas according to their respective acre- 19  
20 age interests in such participating area or areas, or, until a par- 20  
21 ticipating area shall have been established, the owners of the 21  
22 working interests according to their respective acreage interests 22  
23 in all unitized land, shall by majority vote select a successor Unit 23  
24 Operator: Provided, That, if a majority but less than 75 per cent 24  
25 of the working interests qualified to vote are owned by one party 25  
26 to this agreement, a concurring vote of one or more additional work- 26  
27 ing interest owners shall be required to select a new operator. 27

28 Such selection shall not become effective until 28

29 (a) a Unit Operator so selected shall accept in writing the 29  
30 duties and responsibilities of Unit Operator, and 30

31 (b) the selection shall have been approved by the Supervisor 31

1	and approved by the Land Commissioner.	1
2	If no successor Unit Operator is selected and qualified as	2
3	herein provided, the Director and the Land Commissioner, at their	3
4	election may declare this unit agreement terminated.	4
5	7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If	5
6	the Unit Operator is not the sole owner of working interests, costs	6
7	and expenses incurred by Unit Operator in conducting unit operations	7
8	hereunder shall be paid and apportioned among and borne by the	8
9	owners of working interests, all in accordance with the agreement	9
10	or agreements entered into by and between the Unit Operator and the	10
11	owners of working interests, whether one or more, separately or	11
12	collectively. Any agreement or agreements entered into between the	12
13	working interest owners and the Unit Operator as provided in this	13
14	section, whether one or more, are herein referred to as the "unit	14
15	operating agreement." Such unit operating agreement shall also	15
16	provide the manner in which the working interest owners shall be	16
17	entitled to receive their respective proportionate and allocated	17
18	share of the benefits accruing hereto in conformity with their	18
19	underlying operating agreements, leases, or other independent con-	19
20	tracts, and such other rights and obligations as between Unit	20
21	Operator and the working interest owners as may be agreed upon by	21
22	Unit Operator and the working interest owners; however, no such	22
23	unit operating agreement shall be deemed either to modify any of	23
24	the terms and conditions of this unit agreement or to relieve the	24
25	Unit Operator of any right or obligation established under this	25
26	unit agreement, and in case of any inconsistency or conflict be-	26
27	tween this unit agreement and the unit operating agreement, this	27
28	unit agreement shall govern. Three true copies of any unit opera-	28
29	ting agreement executed pursuant to this section should be filed	29
30	with the Supervisor and one true copy with the Land Commissioner,	30
31	prior to approval of this unit agreement.	31



1           8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as other- 1  
2 wise specifically provided herein, the exclusive right, privilege 2  
3 and duty of exercising any and all rights of the parties hereto 3  
4 which are necessary or convenient for prospecting for, producing, 4  
5 storing, allocating, and distributing the unitized substances are 5  
6 hereby delegated to and shall be exercised by the Unit Operator as 6  
7 herein provided. Acceptable evidence of title to said rights shall 7  
8 be deposited with said Unit Operator and, together with this agree- 8  
9 ment, shall constitute and define the rights, privileges, and obli- 9  
10 gations of Unit Operator. Nothing herein, however, shall be con- 10  
11 strued to transfer title to any land or to any lease or operating 11  
12 agreement, it being understood that under this agreement the Unit 12  
13 Operator, in its capacity as Unit Operator, shall exercise the rights 13  
14 of possession and use vested in the parties hereto only for the pur- 14  
15 poses herein specified. 15  
16           9. DRILLING TO DISCOVERY. Within six (6) months after the 16  
17 effective date hereof, the Unit Operator shall begin to drill an 17  
18 adequate test well at a location approved by the Supervisor, if on 18  
19 Federal land, or by the Land Commissioner, if on State land, unless 19  
20 on such effective date a well is being drilled conformably with the 20  
21 terms hereof, and thereafter continue such drilling diligently until 21  
22 the base of the Morrow formation has been penetrated 22  
23 and all formations of the Pennsylvanian age have been tested, or un- 23  
24 til at a lesser depth unitized substances shall be discovered which 24  
25 can be produced in paying quantities (to-wit: quantities sufficient 25  
26 to repay the costs of drilling, completing and producing operations, 26  
27 with a reasonable profit) or the Unit Operator shall at any time es- 27  
28 tablish to the satisfaction of the Supervisor if on Federal land, or 28  
29 the Land Commissioner if on State land, that further drilling of said 29  
30 well would be unwarranted or impracticable; provided, however, that 30  
31 Unit Operator shall not in any event be required to drill said well 31  
32 to a depth in excess of 11,700 feet. Until the discovery 32  
33 of a deposit of unitized sub- 33

1 stances capable of being produced in paying quantities, the Unit 1  
 2 Operator shall continue drilling diligently one well at a time, 2  
 3 allowing not more than six (6) months between the completion of one 3  
 4 well and the beginning of the next well, until a well capable of 4  
 5 producing unitized substances in paying quantities is completed to 5  
 6 the satisfaction of said Supervisor if it be on Federal land or of 6  
 7 the Land Commissioner if on State land, or until it is reasonably 7  
 8 proved that the unitized land is incapable of producing unitized 8  
 9 substances in paying quantities in the formations drilled hereunder. 9  
 10 Nothing in this section shall be deemed to limit the right of the 10  
 11 Unit Operator to resign as provided in Section 5 hereof, or as re- 11  
 12 quiring Unit Operator to commence or continue any drilling during 12  
 13 the period pending such resignation becoming effective in order to 13  
 14 comply with the requirements of this section. The Director and 14  
 15 Land Commissioner may modify the drilling requirements of this sec- 15  
 16 tion by granting reasonable extensions of time when, in their opin- 16  
 17 ion, such action is warranted. 17  
 18 Upon failure to commence any well provided for in this section 18  
 19 within the time allowed, including any extension of time granted by 19  
 20 the Supervisor and the Land Commissioner, this agreement will auto- 20  
 21 matically terminate; upon failure to continue drilling diligently 21  
 22 any well commenced hereunder, the Supervisor and the Land Commission- 22  
 23 er may, after 15-days notice to the Unit Operator, declare this unit 23  
 24 agreement terminated. 24  
 25 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 25  
 26 months after completion of a well capable of producing unitized sub- 26  
 27 stances in paying quantities, the Unit Operator shall submit for the 27  
 28 approval of the Supervisor and the Land Commissioner an acceptable 28  
 29 plan of development and operation for the unitized land which, when 29  
 30 approved by the Supervisor and the Land Commissioner, shall con- 30  
 31 stitute the further drilling and operating obligations of the Unit 31

1 Operator under this agreement for the period specified therein. 1  
2 Thereafter, from time to time before the expiration of any existing 2  
3 plan, the Unit Operator shall submit for the approval of the Super- 3  
4 visor and the Land Commissioner a plan for an additional specified 4  
5 period for the development and operation of the unitized land. 5  
6 Any plan submitted pursuant to this section shall provide for 6  
7 the exploration of the unitized area and for the diligent drilling 7  
8 necessary for determination of the area or areas thereof capable of 8  
9 producing unitized substances in paying quantities in each and every 9  
10 productive formation and shall be as complete and adequate as the 10  
11 Supervisor and the Land Commissioner may determine to be necessary 11  
12 for timely development and proper conservation of the oil and gas 12  
13 resources of the unitized area and shall: 13  
14 (a) specify the number and locations of any wells to be 14  
15 drilled and the proposed order and time for such drilling; and 15  
16 (b) to the extent practicable specify the operating practices 16  
17 regarded as necessary and advisable for proper conservation of 17  
18 natural resources. 18  
19 Separate plans may be submitted for separate productive zones, sub- 19  
20 ject to the approval of the Supervisor and the Land Commissioner. 20  
21 Plans shall be modified or supplemented when necessary to meet 21  
22 changed conditions or to protect the interests of all parties to 22  
23 this agreement. Reasonable diligence shall be exercised in comply- 23  
24 ing with the obligations of the approved plan of development. The 24  
25 Supervisor and the Land Commissioner are authorized to grant a 25  
26 reasonable extension of the 6-month period herein prescribed for 26  
27 submission of an initial plan of development where such action is 27  
28 justified because of unusual conditions or circumstances. After com- 28  
29 pletion hereunder of a well capable of producing any unitized sub- 29  
30 stance in paying quantities, no further wells, except such as may 30  
31 be necessary to afford protection against operations not under this 31

1 agreement and such as may be specifically approved by the Supervisor 1  
2 and the Land Commissioner, shall be drilled except in accordance 2  
3 with a plan of development approved as herein provided. 3

4 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well 4  
5 capable of producing unitized substances in paying quantities or as 5  
6 soon thereafter as required by the Supervisor or the Land Commission- 6  
7 er, the Unit Operator shall submit for approval by the Supervisor 7  
8 and the Land Commissioner a schedule, based on subdivisions of the 8  
9 public-land survey or aliquot parts thereof, of all land then re- 9  
10 garded as reasonably proved to be productive in paying quantities; 10  
11 all lands in said schedule on approval of the Supervisor and the Land 11  
12 Commissioner to constitute a participating area, effective as of the 12  
13 date of completion of such well or the effective date of this unit 13  
14 agreement, whichever is later. The acreages of both Federal and non- 14  
15 Federal lands shall be based upon appropriate computations from the 15  
16 courses and distances shown on the last approved public-land survey 16  
17 as of the effective date of each initial participating area. Said 17  
18 schedule shall also set forth the percentage of unitized substances 18  
19 to be allocated as herein provided to each tract in the participating 19  
20 area so established, and shall govern the allocation of production 20  
21 commencing with the effective date of the participating area. A 21  
22 separate participating area shall be established for each separate 22  
23 pool or deposit of unitized substances or for any group thereof which 23  
24 is produced as a single pool or zone, and any two or more partici- 24  
25 pating areas so established may be combined into one, on approval of 25  
26 the Supervisor and the Land Commissioner. When production from two 26  
27 or more participating areas, so established, is subsequently found 27  
28 to be from a common pool or deposit said participating areas shall 28  
29 be combined into one effective as of such appropriate date as may be 29  
30 approved or prescribed by the Supervisor and the Land Commissioner. 30  
31 The participating area or areas so established shall be revised from 31

1 time to time, subject to like approval, to include additional land 1  
2 then regarded as reasonably proved to be productive in paying quan- 2  
3 tities or necessary for unit operations, or to exclude land then 3  
4 regarded as reasonably proved not to be productive in paying quan- 4  
5 tities and the schedule of allocation percentages shall be revised 5  
6 accordingly. The effective date of any revision shall be the first 6  
7 of the month in which is obtained the knowledge or information on 7  
8 which such revision is predicated, provided, however, that a more 8  
9 appropriate effective date may be used if justified by the Unit 9  
10 Operator and approved by the Supervisor and the Land Commissioner. 10  
11 No land shall be excluded from a participating area on account of 11  
12 depletion of the unitized substances, except that any participating 12  
13 area established under the provisions of this unit agreement shall 13  
14 terminate automatically whenever all completions in the formation on 14  
15 which the participating area is based are abandoned. 15  
16 It is the intent of this section that a participating area 16  
17 shall represent the area known or reasonably estimated to be produc- 17  
18 tive in paying quantities; but, regardless of any revision of the 18  
19 participating area, nothing herein contained shall be construed as 19  
20 requiring any retroactive adjustment for production obtained prior 20  
21 to the effective date of the revision of the participating area. 21  
22 In the absence of agreement at any time between the Unit 22  
23 Operator and the Supervisor and the Land Commissioner as to the 23  
24 proper definition or redefinition of a participating area, or until 24  
25 a participating area has, or areas have, been established as pro- 25  
26 vided herein, the portion of all payments affected thereby shall be 26  
27 impounded in a manner mutually acceptable to the owners of working 27  
28 interests and the Supervisor and the Land Commissioner. Royalties 28  
29 due the United States shall be determined by the Supervisor for 29  
30 Federal lands and the Land Commissioner for State lands and the 30  
31 amount thereof shall be deposited, as directed by the Supervisor and 31

1 the Land Commissioner, to be held as unearned money until a partici- 1  
2 pating area is finally approved and then applied as earned or re- 2  
3 turned in accordance with a determination of the sum due as Federal 3  
4 and State royalty on the basis of such approved participating area. 4  
5 Whenever it is determined, subject to the approval of the 5  
6 Supervisor and the Land Commissioner, that a well drilled under this 6  
7 agreement is not capable of production in paying quantities and in- 7  
8 clusion of the land on which it is situated in a participating area 8  
9 is unwarranted, production from such well shall, for the purposes of 9  
10 settlement among all parties other than working interest owners, be 10  
11 allocated to the land on which the well is located unless such land 11  
12 is already within the participating area established for the pool 12  
13 or deposit from which such production is obtained. Settlement for 13  
14 working interest benefits from such a well shall be made as provided 14  
15 in the unit operating agreement. 15  
16 12. ALLOCATION OF PRODUCTION. All unitized substances pro- 16  
17 duced from each participating area established under this agreement, 17  
18 except any part thereof used in conformity with good operating prac- 18  
19 tices within the unitized area for drilling, operating, camp and 19  
20 other production or development purposes, for repressuring or re- 20  
21 cycling in accordance with a plan of development approved by the 21  
22 Supervisor and Land Commissioner, or unavoidably lost, shall be 22  
23 deemed to be produced equally on an acreage basis from the several 23  
24 tracts of unitized land of the participating area established for 24  
25 such production and, for the purpose of determining any benefits 25  
26 accruing under this agreement, each such tract of unitized land shall 26  
27 have allocated to it such percentage of said production as the num- 27  
28 ber of acres of such tract included in said participating area bears 28  
29 to the total acres of unitized land in said participating area, ex- 29  
30 cept that allocation of production hereunder for purposes other than 30  
31 for settlement of the royalty, overriding royalty, or payment out of 31

1 production obligations of the respective working interest owners, 1  
2 shall be on the basis prescribed in the unit operating agreement 2  
3 whether in conformity with the basis of allocation herein set forth 3  
4 or otherwise. It is hereby agreed that production of unitized sub- 4  
5 stances from a participating area shall be allocated as provided 5  
6 herein regardless of whether any wells are drilled on any particular 6  
7 part or tract of said participating area. If any gas produced from 7  
8 one participating area is used for repressuring or recycling pur- 8  
9 poses in another participating area, the first gas withdrawn from 9  
10 such last-mentioned participating area for sale during the life of 10  
11 this agreement shall be considered to be the gas so transferred un- 11  
12 til an amount equal to that transferred shall be so produced for 12  
13 sale and such gas shall be allocated to the participating area from 13  
14 which initially produced as such area was last defined at the time 14  
15 of such final production. 15

16 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR 16  
17 FORMATIONS. Any party hereto owning or controlling the working 17  
18 interest in any unitized land having thereon a regular well location 18  
19 may with the approval of the Supervisor and the Land Commissioner, 19  
20 at such party's sole risk, costs, and expense, drill a well to test 20  
21 any formation for which a participating area has not been established 21  
22 or to test any formation for which a participating area has been 22  
23 established if such location is not within said participating area, 23  
24 unless within 90 days of receipt of notice from said party of his 24  
25 intention to drill the well the Unit Operator elects and commences 25  
26 to drill such a well in like manner as other wells are drilled by 26  
27 the Unit Operator under this agreement. 27

28 If any well drilled as aforesaid by a working interest owner 28  
29 results in production such that the land upon which it is situated 29  
30 may properly be included in a participating area, such participating 30  
31 area shall be established or enlarged as provided in this agreement 31

1 and the well shall thereafter be operated by the Unit Operator in 1  
2 accordance with the terms of this agreement and the unit operating 2  
3 agreement. 3

4 If any well drilled as aforesaid by a working interest owner 4  
5 obtains production in quantities insufficient to justify the in- 5  
6 clusion of the land upon which such well is situated in a partici- 6  
7 pating area, such well may be operated and produced by the party 7  
8 drilling the same subject to the conservation requirements of this 8  
9 agreement. The royalties in amount or value of production from any 9  
10 such well shall be paid as specified in the underlying lease and 10  
11 agreements affected. 11

12 14. ROYALTY SETTLEMENT. The United States and any State 12  
13 and any royalty owner who, is entitled to take in kind a share of 13  
14 the substances now unitized hereunder shall hereafter be entitled 14  
15 to the right to take in kind its share of the unitized substances, 15  
16 and Unit Operator, or the working interest owner in case of the 16  
17 operation of a well by a working interest owner as herein provided 17  
18 for in special cases, shall make deliveries of such royalty share 18  
19 taken in kind in conformity with the applicable contracts, laws, 19  
20 and regulations. Settlement for royalty interest not taken in kind 20  
21 shall be made by working interest owners responsible therefor under 21  
22 existing contracts, laws and regulations, or by the Unit Operator, 22  
23 on or before the last day of each month for unitized substances 23  
24 produced during the preceding calendar month; provided, however, 24  
25 that nothing herein contained shall operate to relieve the lessees 25  
26 of any land from their respective lease obligations for the pay- 26  
27 ment of any royalties due under their leases. 27

28 If gas obtained from lands not subject to this agreement is 28  
29 introduced into any participating area hereunder, for use in re- 29  
30 pressuring, stimulation of production, or increasing ultimate re- 30  
31 covery, in conformity with a plan of operations approved by the 31



1 Supervisor and the Land Commissioner, a like amount of gas, after 1  
2 settlement as herein provided for any gas transferred from any other 2  
3 participating area and with appropriate deduction for loss from any 3  
4 cause, may be withdrawn from the formation into which the gas is 4  
5 introduced, royalty free as to dry gas, but not as to any products 5  
6 which may be extracted therefrom; provided that such withdrawal 6  
7 shall be at such time as may be provided in the approved plan of 7  
8 operations or as may otherwise be consented to by the Supervisor and 8  
9 the Land Commissioner as conforming to good petroleum engineering 9  
10 practice; and provided further, that such right of withdrawal shall 10  
11 terminate on the termination of this unit agreement. 11

12 Royalty due the United States shall be computed as provided 12  
13 in the operating regulations and paid in value or delivered in kind 13  
14 as to all unitized substances on the basis of the amounts thereof 14  
15 allocated to unitized Federal land as provided herein at the rates 15  
16 specified in the respective Federal leases, or at such lower rate 16  
17 or rates as may be authorized by law or regulation; provided, that 17  
18 for leases on which the royalty rate depends on the daily average 18  
19 production per well, said average production shall be determined in 19  
20 accordance with the operating regulations as though each partici- 20  
21 pating area were a single consolidated lease. 21

22 Royalty due on account of State lands shall be computed and 22  
23 paid on the basis of all unitized substances allocated to such lands 23

24 15. RENTAL SETTLEMENT. Rental or minimum royalties due 24  
25 on leases committed hereto shall be paid by working interest owners 25  
26 responsible therefor under existing contracts, laws, and regulations 26  
27 provided that nothing herein contained shall operate to relieve the 27  
28 lessees of any land from their respective lease obligations for the 28  
29 payment of any rental or minimum royalty due under their leases. 29  
30 Rental or minimum royalty for lands of the United States subject to 30  
31 this agreement shall be paid at the rate specified in the respective 31

1 leases from the United States unless such rental or minimum royalty 1  
2 is waived, suspended, or reduced by law or by approval of the Secre- 2  
3 tary or his duly authorized representative. 3

4 Rentals on State of New Mexico lands subject to this agree- 4  
5 ment shall be paid at the rates specified in the respective leases. 5

6 With respect to any lease on non-Federal land containing pro- 6  
7 visions which would terminate such lease unless drilling operations 7  
8 are commenced upon the land covered thereby within the time therein 8  
9 specified or rentals are paid for the privilege of deferring such 9  
10 drilling operations, the rentals required thereby shall, notwith- 10  
11 standing any other provision of this agreement, be deemed to accrue 11  
12 and become payable during the term thereof as extended by this agree- 12  
13 ment and until the required drilling operations are commenced upon 13  
14 the land covered thereby or until some portion of such land is in- 14  
15 cluded within a participating area. 15

16 16. CONSERVATION. Operations hereunder and production of 16  
17 unitized substances shall be conducted to provide for the most econ- 17  
18 omical and efficient recovery of said substances without waste, as 18  
19 defined by or pursuant to State or Federal law or regulation. 19

20 17. DRAINAGE. The Unit Operator shall take such measures 20  
21 as the Supervisor and Land Commissioner deem appropriate and ade- 21  
22 quate to prevent drainage of unitized substances from unitized land 22  
23 by wells on land not subject to this agreement. 23

24 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, 24  
25 conditions, and provisions of all leases, subleases, and other con- 25  
26 tracts relating to exploration, drilling, development, or operation 26  
27 for oil or gas on lands committed to this agreement are hereby ex- 27  
28 pressly modified and amended to the extent necessary to make the 28  
29 same conform to the provisions hereof, but otherwise to remain in 29  
30 full force and effect; and the parties hereto hereby consent that 30  
31 the Secretary, as to Federal leases and the Land Commissioner, as to 31

1 State leases, shall and each by his approval hereof, or by the 1  
2 approval hereof by his duly authorized representative, does hereby 2  
3 establish, alter, change, or revoke the drilling, producing, rental, 3  
4 minimum royalty, and royalty requirements of Federal and State 4  
5 leases committed hereto and the regulations in respect thereto to 5  
6 conform said requirements to the provisions of this agreement, and, 6  
7 without limiting the generality of the foregoing, all leases, sub- 7  
8 leases, and contracts are particularly modified in accordance with 8  
9 the following: 9

10 (a) The development and operation of lands subject to this 10  
11 agreement under the terms hereof shall be deemed full performance of 11  
12 all obligations for development and operation with respect to each 12  
13 and every separately owned tract subject to this agreement, regard- 13  
14 less of whether there is any development of any particular tract of 14  
15 the unit area. 15

16 (b) Drilling and producing operations performed hereunder 16  
17 upon any tract of unitized lands will be accepted and deemed to be 17  
18 performed upon and for the benefit of each and every tract of uni- 18  
19 tized land, and no lease shall be deemed to expire by reason of 19  
20 failure to drill or produce wells situated on the land therein em- 20  
21 braced. 21

22 (c) Suspension of drilling or producing operations on all 22  
23 unitized lands pursuant to direction or consent of the Secretary and 23  
24 the Land Commissioner, or his duly authorized representative, shall 24  
25 be deemed to constitute such suspension pursuant to such direction 25  
26 or consent as to each and every tract of unitized land. A suspension 26  
27 of drilling or producing operations limited to specified lands shall 27  
28 be applicable only to such lands. 28

29 (d) Each lease, sublease or contract relating to the ex- 29  
30 ploration, drilling, development or operation for oil or gas of 30  
31 lands other than those of the United States and State of New Mexico 31

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

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

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

28 (g) The segregation of any Federal lease committed to this 28  
29 agreement is governed by the following provision in the fourth para- 29  
30 graph of Sec. 17(j) of the Mineral Leasing Act, as amended by the 30  
31 Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease 31

heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, That any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

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

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

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PMS THE CHAIRMAN OF THE OIL CONSERVATION COMMISSION, FONE AND  
MAIL  
NEW MEXICO STATE LAND OFFICE BLDG  
SANTA FE NM  
RE APPLICATION NUMBER 5132-AMERICAN QUOSAR PETROLEUM OF NEW  
MEXICO  
DEAR MR PORTER  
I AM OPPOSED TO THIS APPLICATION ON THE BASIS OF AN INADEQUATE  
DESCRIPTION OF THE SECTION OF LAND INVOLVED IN THE PETITION.  
I HAVE SOME ACREAGE IN THE TOWNSHIP AND RANGE TO BE UNITIZED;  
480 ACRES IN SECTION 13 AND 120 ACRES IN SECTION 24. I REQUEST  
POSTPONEMENT OF THIS HEARING SO THAT I MAY HAVE TIME TO PREPARE  
MY OPPOSITION TO THIS APPLICATION AND TO BE ADEQUATELY HEARD.  
PLEASE READ THIS TELEGRAM INTO THE RECORD.  
MICHAEL P GRACE

1316 EST

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1 or gas; said lease shall continue in full force and effect as to all 1  
2 of the lands embraced therein, so long thereafter as oil or gas in 2  
3 paying quantities is being produced from any protion of said lands. 3

4 19. COVENANTS RUN WITH LAND. The covenants herein shall 4  
5 be construed to be covenants running with the land with respect to 5  
6 the interest of the parties hereto and their successors in interest 6  
7 until this agreement terminates, and any grant, transfer, or convey- 7  
8 ance, of interest in land or leases subject hereto shall be and here- 8  
9 by is conditioned upon the assumption of all privileges and obli- 9  
10 gations hereunder by the grantee, transferee, or other successor in 10  
11 interest. No assignment or transfer of any working interest, roy- 11  
12 alty, or other interest subject hereto shall be binding upon Unit 12  
13 Operator until the first day of the calendar month after Unit Opera- 13  
14 tor is furnished with the original, photostatic, or certified copy 14  
15 of the instrument of transfer. 15

16 20. EFFECTIVE DATE AND TERM. This agreement shall become 16  
17 effective upon approval by the Secretary and the Land Commissioner 17  
18 or their duly authorized representatives, and shall terminate five (5) 18  
19 years from said effective date unless 19

20 (a) such date of expiration is extended by the Director and 20  
21 the Land Commissioner, or 21

22 (b) it is reasonably determined prior to the expiration of 22  
23 the fixed term or any extension thereof that the unitized land is 23  
24 incapable of production of unitized substances in paying quantities 24  
25 in the formations tested hereunder and after notice of intention to 25  
26 terminate the agreement on such ground is given by the Unit Operator 26  
27 to all parties in interest at their last known addresses, the agree- 27  
28 ment is terminated with the approval of the Supervisor and the Land 28  
29 Commissioner, or 29

30 (c) a valuable discovery of unitized substances has been 30  
31 made or accepted on unitized land during said initial term or any 31

1 extension thereof, in which event the agreement shall remain in 1  
2 effect for such term and so long as unitized substances can be pro- 2  
3 duced in quantities sufficient to pay for the cost of producing 3  
4 same from wells on unitized land within any participating area es- 4  
5 tablished hereunder and, should production cease, so long thereafter 5  
6 as diligent operations are in progress for the restoration of pro- 6  
7 duction or discovery of new production and so long thereafter as 7  
8 unitized substances so discovered can be produced as aforesaid, or 8  
9 (d) it is terminated as heretofore provided in this agree- 9  
10 ment. This agreement may be terminated at any time by not less than 10  
11 75 per centum, on an acreage basis, of the working interest owners 11  
12 signatory hereto, with the approval of the Supervisor and the Land 12  
13 Commissioner; notice of any such approval to be given by the Unit 13  
14 Operator to all parties hereto. 14  
15 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The 15  
16 Director is hereby vested with authority to alter or modify from 16  
17 time to time in his discretion the quantity and rate of production 17  
18 under this agreement when such quantity and rate is not fixed pur- 18  
19 suant to Federal or State law or does not conform to any state-wide 19  
20 voluntary conservation or allocation program, which is established, 20  
21 recognized, and generally adhered to by the majority of operators 21  
22 in such State, such authority being hereby limited to alteration or 22  
23 modification in the public interest, the purpose thereof and the 23  
24 public interest to be served thereby to be stated in the order of 24  
25 alteration or modification. Without regard to the foregoing, the 25  
26 Director and the Commissioner are also hereby vested with authority 26  
27 to alter or modify from time to time in his discretion the rate of 27  
28 prospecting and development and the quantity and rate of production 28  
29 under this agreement when such alteration or modification is in the 29  
30 interest of attaining the conservation objectives stated in this 30  
31 agreement and is not in violation of any applicable Federal or State 31  
law.



1 Powers in this section vested in the Director and the Com- 1  
2 missioner shall only be exercised after notice to Unit Operator and 2  
3 opportunity for hearing to be held not less than 15 days from notice. 3

4 22. APPEARANCES. Unit Operator shall, after notice to other 4  
5 parties affected, have the right to appear for and on behalf of any 5  
6 and all interests affected hereby before the Department of the 6  
7 Interior and the Commissioner of Public Lands and to appeal from 7  
8 orders issued under the regulations of said Department or Land 8  
9 Commissioner or to apply for relief from any of said regulations or 9  
10 in any proceedings relative to operations before the Department of 10  
11 the Interior or the Land Commissioner or any other legally consti- 11  
12 tuted authority; provided, however, that any other interested party 12  
13 shall also have the right at his own expense to be heard in any such 13  
14 proceeding. 14

15 23. NOTICES. All notices, demands or statements required 15  
16 hereunder to be given or rendered to the parties hereto shall be 16  
17 deemed fully given if given in writing and personally delivered to 17  
18 the party or sent by postpaid registered or certified mail, addressed 18  
19 to such party or parties at their respective addresses set forth in 19  
20 connection with the signatures hereto or to the ratification or con- 20  
21 sent hereof or to such other address as any such party may have fur- 21  
22 nished in writing to party sending the notice, demand or statement. 22

23 24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement 23  
24 contained shall be construed as a waiver by any party hereto of the 24  
25 right to assert any legal or constitutional right or defense as to 25  
26 the validity or invalidity of any law of the State wherein said uni- 26  
27 tized lands are located, or of the United States, or regulations 27  
28 issued thereunder in any way affecting such party, or as a waiver by 28  
29 any such party of any right beyond his or its authority to waive. 29

30 25. UNAVOIDABLE DELAY. All obligations under this agree- 30  
31 ment requiring the Unit Operator to commence or continue drilling or 31

1 to operate on or produce unitized substances from any of the lands 1  
2 covered by this agreement shall be suspended while the Unit Operator, 2  
3 despite the exercise of due care and diligence, is prevented from 3  
4 complying with such obligations, in whole or in part, by strikes, 4  
5 acts of God, Federal, State, or municipal law or agencies, unavoi- 5  
6 dable accidents, uncontrollable delays in transportation, inability 6  
7 to obtain necessary materials in open market, or other matters be- 7  
8 yond the reasonable control of the Unit Operator whether similar to 8  
9 matters herein enumerated or not. No unit obligation which is sus- 9  
10 pended under this section shall become due less than thirty (30) 10  
11 days after it has been determined that the suspension is no longer 11  
12 applicable. Determination of creditable "Unavoidable Delay" time 12  
13 shall be made by the unit operator subject to approval of the Super- 13  
14 visor and the Land Commissioner. 14

15 26. NONDISCRIMINATION. In connection with the performance 15  
16 of work under this agreement, the operator agrees to comply with 16  
17 all the provisions of section 202 (1) to (7) inclusive of Executive 17  
18 Order 11246 (30 F.R. 12319), which are hereby incorporated by refer- 18  
19 ence in this agreement. 19

20 27. LOSS OF TITLE. In the event title to any tract of 20  
21 unitized land shall fail and the true owner cannot be induced to 21  
22 join in this unit agreement, such tract shall be automatically re- 22  
23 garded as not committed hereto and there shall be such readjustment 23  
24 of future costs and benefits as may be required on account of the 24  
25 loss of such title. In the event of a dispute as to title as to any 25  
26 royalty, working interest, or other interests subject thereto, pay- 26  
27 ment or delivery on account thereof may be withheld without liability 27  
28 for interest until the dispute is finally settled; provided, that, 28  
29 as to Federal and State land or leases, no payments of funds due 29  
30 the United States or the State of New Mexico should be withheld, but 30  
31 such funds shall be deposited as directed by the Supervisor and such 31

1 funds of the State of New Mexico shall be deposited as directed by 1  
2 the Land Commissioner, to be held as unearned money pending final 2  
3 settlement of the title dispute, and then applied as earned or re- 3  
4 turned in accordance with such final settlement. 4

5 Unit Operator as such is relieved from any responsibility 5  
6 for any defect or failure of any title hereunder. 6

7 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of 7  
8 any substantial interest in a tract within the unit area fails or 8  
9 refuses to subscribe or consent to this agreement, the owner of the 9  
10 working interest in that tract may withdraw said tract from this 10  
11 agreement by written notice delivered to the Supervisor and the 11  
12 Land Commissioner and the Unit Operator prior to the approval of 12  
13 this agreement by the Supervisor. Any oil or gas interests in lands 13  
14 within the unit area not committed hereto prior to submission of 14  
15 this agreement for final approval may thereafter be committed hereto 15  
16 by the owner or owners thereof subscribing or consenting to this 16  
17 agreement, and, if the interest is a working interest, by the owner 17  
18 of such interest also subscribing to the unit operating agreement. 18  
19 After operations are commenced hereunder, the right of subsequent 19  
20 joinder, as provided in this section, by a working interest owner 20  
21 is subject to such requirements or approvals, if any, pertaining to 21  
22 such joinder, as may be provided for in the unit operating agree- 22  
23 ment. After final approval hereof, joinder by a non-working inter- 23  
24 est owner must be consented to in writing by the working interest 24  
25 owner committed hereto and responsible for the payment of any bene- 25  
26 fits that may accrue hereunder in behalf of such non-working inter- 26  
27 est. A non-working interest may not be committed to this unit 27  
28 unless the corresponding working interest is committed hereto. 28  
29 Joinder to the unit agreement by a working-interest owner, at any 29  
30 time, must be accompanied by appropriate joinder to the unit opera- 30  
31 ting agreement, if more than one committed working-interest owner 31

1 is involved, in order for the interest to be regarded as committed 1  
2 to this unit agreement. Except as may otherwise herein be provided, 2  
3 subsequent joinders to this agreement shall be effective as of the 3  
4 first day of the month following the filing with the Supervisor and 4  
5 the Land Commissioner of duly executed counterparts of all or any 5  
6 papers necessary to establish effective commitment of any tract to 6  
7 this agreement unless objection to such joinder is duly made within 7  
8 60 days by the Supervisor and the Land Commissioner. 8

9 29. COUNTERPARTS. This agreement may be executed in any 9  
10 number of counterparts no one of which needs to be executed by all 10  
11 parties or may be ratified or consented to by separate instrument in 11  
12 writing specifically referring hereto and shall be binding upon all 12  
13 those parties who have executed such a counterpart, ratification, 13  
14 or consent hereto with the same force and effect as if all such 14  
15 parties had signed the same document and regardless of whether or 15  
16 not it is executed by all other parties owning or claiming an inter- 16  
17 est in the lands within the above-described unit area. 17

18 30. SURRENDER. Nothing in this agreement shall prohibit 18  
19 the exercise by any working interest owner of the right to surrender 19  
20 vested in such party by any lease, sublease, or operating agreement 20  
21 as to all or any part of the lands covered thereby, provided that 21  
22 each party who will or might acquire such working interest by such 22  
23 surrender or by forfeiture as hereafter set forth, is bound by the 23  
24 terms of this agreement. 24

25 If as a result of any such surrender the working interest 25  
26 rights as to such lands become vested in any party other than the 26  
27 fee owner of the unitized substances, said party may forfeit such 27  
28 rights and further benefits from operation hereunder as to said 28  
29 land to the party next in the chain of title who shall be and become 29  
30 the owner of such working interest. 30

31 If as the result of any such surrender or forfeiture working 31

1 interest rights become vested in the fee owner of the unitized sub- 1  
2 stances, such owner may: 2

3 (1) Accept those working interest rights subject to this 3  
4 agreement and the unit operating agreement; or 4

5 (2) Lease the portion of such land as is included in a 5  
6 participating area established hereunder subject to this agreement 6  
7 and the unit operating agreement. 7

8 (3) Provide for the independent operation of any part of 8  
9 such land that are not then included within a participating area 9  
10 established hereunder. 10

11 If the fee owner of the unitized substances does not accept 11  
12 the working interest rights subject to this agreement and the unit 12  
13 operating agreement or lease such lands as above provided within 13  
14 six (6) months after the surrendered or forfeited working interest 14  
15 rights become vested in the fee owner, the benefits and obligations 15  
16 of operations accruing to such lands under this agreement and the 16  
17 unit operating agreement shall be shared by the remaining owners of 17  
18 unitized working interests in accordance with their respective 18  
19 working interest ownerships, and such owners of working interests 19  
20 shall compensate the fee owner of unitized substances in such lands 20  
21 by paying sums equal to the rentals, minimum royalties, and royal- 21  
22 ties applicable to such lands under the lease in effect when the 22  
23 lands were unitized. 23

24 An appropriate accounting and settlement shall be made, for 24  
25 all benefits accruing to or payments and expenditures made or in- 25  
26 curred on behalf of such surrendered or forfeited working interest 26  
27 subsequent to the date of surrender or forfeiture, and payment of 27  
28 any moneys found to be owing by such an accounting shall be made as 28  
29 between the parties within thirty (30) days. In the event no unit 29  
30 operating agreement is in existence and a mutually acceptable agree- 30  
31 ment between the proper parties thereto cannot be consummated, the 31

1	Supervisor may prescribe such reasonable and equitable agreement as	1
2	he deems warranted under the circumstances.	2
3	The exercise of any right vested in a working interest owner	3
4	to reassign such working interest to the party from whom obtained	4
5	shall be subject to the same conditions as set forth in this section	5
6	in regard to the exercise of a right to surrender.	6
7	31. TAXES. The working interest owners shall render and	7
8	pay for their account and the account of the royalty owners all	8
9	valid taxes on or measured by the unitized substances in and under	9
10	or that may be produced, gathered and sold from the land subject to	10
11	this contract after the effective date of this agreement, or upon	11
12	the proceeds derived therefrom. The working interest owners on each	12
13	tract shall and may charge the proper proportion of said taxes to	13
14	the royalty owners having interests in said tract, and may currently	14
15	retain and deduct sufficient of the unitized substances or deriva-	15
16	tive products, or net proceeds thereof from the allocated share of	16
17	each royalty owner to secure reimbursement for the taxes so paid.	17
18	No such taxes shall be charged to the United States or the State of	18
19	New Mexico or to any lessor who has a contract with his lessee which	19
20	requires the lessee to pay such taxes.	20
21	32. NO PARTNERSHIP. It is expressly agreed that the re-	21
22	lation of the parties hereto is that of independent contractors and	22
23	nothing in this agreement contained, expressed or implied, nor any	23
24	operations conducted hereunder, shall create or be deemed to have	24
25	created a partnership or association between the parties hereto or	25
26	any of them.	26
27	33. CONFLICT OF SUPERVISION. Neither the Unit Operator	27
28	nor the working interest owners, nor any of them, shall be subject	28
29	to any forfeiture, termination or expiration of any right hereunder	29
30	or under any leases or contracts subject hereto, or to any penalty	30
31	or liability on account of delay or failure in whole or in part to	31

1 comply with any applicable provisions thereof to the extent that 1  
2 the said Unit Operator or the working interest owners, or any of 2  
3 them, are hindered, delayed or prevented from complying therewith 3  
4 by reason of failure of the Unit Operator to obtain, in the exercise 4  
5 of due diligence, the concurrence of proper representatives of the 5  
6 United States and proper representatives of the State of New Mexico 6  
7 in and about any matters or things concerning which it is required 7  
8 herein that such concurrence be obtained. The parties hereto, in- 8  
9 cluding the State Commission, agree that all powers and authority 9  
10 vested in the State Commission in and by any provisions of this 10  
11 agreement are vested in the State Commission and shall be exercised 11  
12 by it pursuant to the provisions of the laws of the State of New 12  
13 Mexico and subject in any case to appeal or judicial review as may 13  
14 now or hereafter be provided by the laws of the State of New Mexico. 14

15 IN WITNESS WHEREOF, the parties hereto have caused this agree- 15  
16 ment to be executed and have set opposite their respective names 16  
17 the date of execution. 17

18 UNIT OPERATOR AND WORKING INTEREST OWNER 18

19 ATTEST:

AMERICAN QUASAR PETROLEUM CO. 19

20 By: \_\_\_\_\_  
21 Secretary

20 By: \_\_\_\_\_  
21 President

22 Address: 606 Vaughn Building  
23 Midland, Texas 79701

24 WORKING INTEREST OWNERS

25 ATLANTIC RICHFIELD COMPANY

26 By: \_\_\_\_\_

27 Date \_\_\_\_\_

28 Address \_\_\_\_\_

29 \_\_\_\_\_

CORPORATE

STATE OF New Mexico   ↓  
COUNTY OF Eddy       ↓

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day  
of \_\_\_\_\_, 1973, by TED COLLINS, JR. Who is Vice  
President of American Quasar Petroleum Co. of New Mexico, a New  
Mexico Corporation, for and on behalf of said Corporation.

MY COMMISSION EXPIRES: \_\_\_\_\_  
Notary Public

CORPORATE

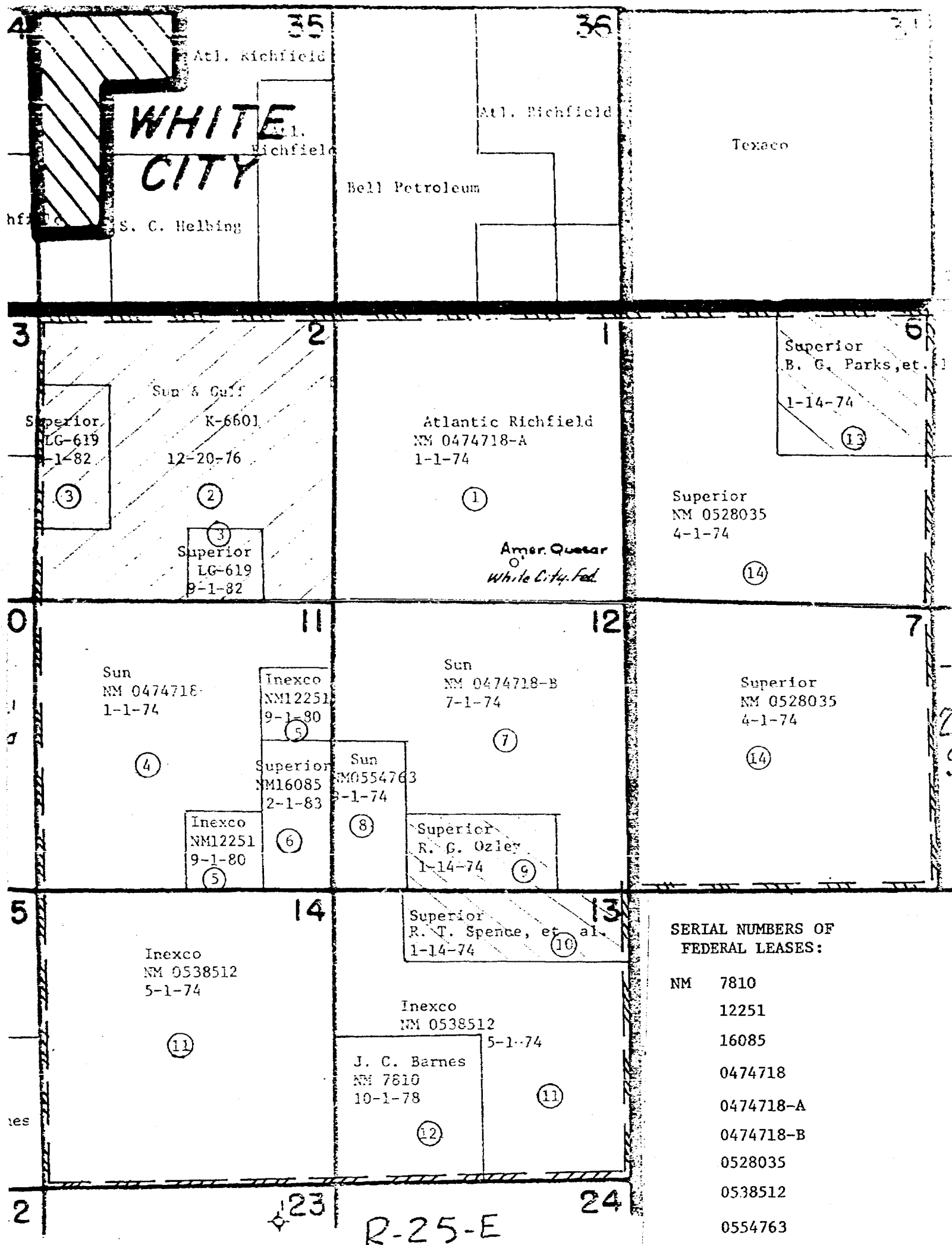
STATE OF New Mexico   ↓  
COUNTY OF Eddy       ↓

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day  
of \_\_\_\_\_, 1973, by \_\_\_\_\_ who is Attorney  
in-Fact for ATLANTIC RICHFIELD COMPANY a Delaware Corporation,  
for and on behalf of said Corporation.

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

MY COMMISSION EXPIRES: \_\_\_\_\_





SERIAL NUMBERS OF  
FEDERAL LEASES:

NM 7810  
12251  
16085  
0474718  
0474718-A  
0474718-B  
0528035  
0538512  
0554763

--- OUTLINE OF UNIT AREA

- ① TRACT NUMBER
- FEDERAL LAND, 4,120.00 ACRES  
80.47% OF UNIT AREA
- STATE LAND, 640.56 ACRES  
12.51% OF UNIT AREA
- PATENTED (FEE) LAND, 359.40 ACRES  
7.02% OF UNIT AREA

TOTAL 5,119.96 ACRES

EXHIBIT "A"  
WHITE CITY UNIT  
EDDY COUNTY, NEW MEXICO

EXHIBIT "B"  
SCHEDULE OF LANDS AND LEASES  
WHITE CITY UNIT AREA  
EDDY COUNTY, NEW MEXICO

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding		Working Interest	
							Royalty Owner and Percentage	Interest	Royalty Owner and Percentage	Interest

FEDERAL LANDS

TOWNSHIP 25 SOUTH, RANGE 25 EAST, N.M.P.M.

1	Section 1: Lots 1, 2, 3, 4, S/2 N/2 and S/2	640.42	N.M. 0474718-A 12-31-73	U.S.A. 12.5	Atlantic Richfield Co.	All	Beulah Ray Leggett	3.00	Atlantic Richfield Co.	All
4	Section 11: N/2 N/2, SW/4 NE/4, S/2 NW/4, SW/4 and NW/4 SE/4	479.98	N.M. 0474718 12-31-73	U.S.A. 12.5	Sun Oil Co. (Delaware)	All	Beulah Ray Leggett	6.25	Sun Oil Co. (Del)	All
5	Section 11: SE/4 NE/4 and SW/4 SE/4	80.00	N.M. 12251 8-31-80	U.S.A. 12.5	Inexco Oil Co.	All	None		Inexco Oil Co.	All
6	Section 11: E/2 SE/4	80.00	N.M. 16085 1-31-83	U.S.A. 12.5	Superior Oil Co.	All	Seymour S. Smith	5.00	Superior Oil Co.	All
7	Section 12: N/2, NE/4 SW/4, N/2 SE/4 and SE/4 SE/4	480.00	N.M. 0474718-B 12-31-73	U.S.A. 12.5	Sun Oil Co. (Delaware)	All	Beulah Ray Leggett	3.00	Sun Oil Co. (Del)	All
8	Section 12: W/2 SW/4	80.00	N.M. 0554763 8-31-74	U.S.A. 12.5	Sun Oil Co. (Delaware)	All	A.G. Andrikopoulos	5.00	Sun Oil Co. (Del)	All

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage
11	Section 13: NW/4 NW/4, S/2 N/2 and SE/4	1,000.00	NM 0538512 4-30-74	U.S.A. 12.5	Inexco Oil Co.	All	Sam Glasser \$600 Per/Ac. out of	3.00 Inexco Oil Co. All
	Section 14: All							
12	Section 13: SW/4	160.00	NM 7810 9-30-78	U.S.A. 12.5	J. C. Barnes, Sr.	All	Royce E. Lawson William M. Holcomb	2.00 J. E. Barnes, Sr. All 3.00
TOWNSHIP 25 SOUTH, RANGE 26 EAST, N.M.P.M.								
14	Section 6: Lots 3,4,5,6,7, SE/4 NW/4. E/2 SW/4 and SE/4	1,119.60	NM 0528035	U.S.A. 12.5	Superior Oil Co.	All	Marvin Davis	3.00 Superior Oil Co. All
	Section 7: Lots 1,2,3,4, E/2 W/2 and E/2							

**TOTAL** 4,120.00 Acres Federal Lands

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	STATE OF NEW MEXICO LANDS		
					Lessee of Record	Interest	Overriding Royalty Owner and Percentage
TOWNSHIP 25 SOUTH, RANGE 25 EAST							
2	Section 2: Lots 520.56 1,2,3,4, SE/4 NW/4, S/2 NE/4, NE/4 SW/4, S/2 SW/4, N/2 SE/4 and SE/4 SE/4		K-6601 12-20-76	State of N.M. 12.5	Sun Oil Co. (Delaware)	All	Stephen C. Helbing 5.469 Sun Oil Co. (Del) Gulf Oil Corp. 87.5 12.5
3	Section 2: SW/4 NW/4, NW/4 SW/4 and SW/4 SE/4	120.00	LG-619 9-1-82	State of N.M. 12.5	Superior Oil Co.	All	None Superior Oil Co. All

PATENTED (FEE) LANDS

TOWNSHIP 25 SOUTH, RANGE 25 EAST

9	Section 12: SE/4 SW/4 and SW/4 SE/4	80.00	Fee 1-14-74	R. G. Ozley All	Superior Oil Co.*
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Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage

## PATENTED (FEE) LANDS

## TOWNSHIP 25 SOUTH, RANGE 25 EAST

10	Section 13: N/2 NE/4 and NE/4 NW/4	120.00	Fee 1-14-74	Helen M. Sears & the Estate of James P. Sears, Dec.	25.00 Superior Oil Co.*			
				Margaret Spence Lester A. Parks Bobby G. Parks Clyde R. Jones	25.00 18.75 18.75 12.50			

## TOWNSHIP 25 SOUTH, RANGE 26 EAST

13	Section 6: Lots 1,2 and S/2 NE/4	159.40	Fee 1-14-74	Helen M. Sears & the estate of James P. Sears, Dec. Margaret Spence Lester A. Parks Bobby G. Parks R. N. Thomas	25.000 Superior Oil Co.*  25.000 21.875 21.875 6.250			
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\* New Leases are being negotiated and it is anticipated that such will be committed to the Unit Area, with American Quasar Petroleum Co. of New Mexico owning 100% of the Working interest and Superior Oil Co. owning a 1/16th of 8/8ths overriding royalty interest.

TOTAL 359.40 Acres, Patented (Fee) Lands

DOCKET: EXAMINER HEARING - THURSDAY - JANUARY 3, 1974

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

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

CASE 5000: (Continued from the June 20, 1973, Regular Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Aztec Oil and Gas Company and United States Fidelity and Guaranty Company and all other interested parties to appear and show cause why the Aztec Totah Unit Wells Nos. 17 and 18, located in Unit E of Section 20, and Unit H of Section 19, respectively, Township 29 North, Range 13 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

CASE 5006: (Continued from the June 20, 1973, Regular Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Aztec Oil and Gas Company and United States Fidelity and Guaranty Company and all other interested parties to appear and show cause why the Southeast Cha Cha Unit Well No. 1 located in Unit M of Section 32, Township 29 North, Range 13 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

CASE 5128: Application of Gulf Oil Corporation for a non-standard gas proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 160-acre non-standard gas proration unit comprising the NE/4 SW/4 and W/2 SE/4 of Section 28 and the NW/4 NE/4 of Section 33, both in Township 21 South, Range 37 East, Blinbry Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to its J. N. Carson Wells Nos. 4 and 9 located in Units O and K, respectively, of Section 28.

CASE 5129: Application of Dorchester Exploration Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order force pooling all mineral interests in the Wilson-Pennsylvanian Pool underlying the E/2 of Section 13, Township 21 South, Range 34 East, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location in Unit I of said Section 13. 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 5130: Application of Mesa Petroleum Company for the amendment of Order No. R-4658, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-4658, which order promulgated special

(Case 5130 continued from Page 1)

pool rules for the North Shoe Bar-Strawn Pool, Lea County, New Mexico. Applicant seeks the amendment of said rules to provide for a special gas-oil ratio limitation of 4000 to one.

CASE 5131: Application of Jake Hamon 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 through the perforated interval from 12,935 feet to 12,946 feet and the open-hole interval from 12,960 feet to 13,023 feet in his Getty State L-736 Well No. 1 located in Unit D of Section 32, Township 16 South, Range 36 East, East Shoe Bar-Devonian Pool, Lea County, New Mexico.

CASE 5132: Application of American Quasar Petroleum Company of New Mexico for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the White City Unit Area comprising 5,120 acres, more or less, of Federal, State and fee lands in Township 25 South, Ranges 25 and 26 East, Eddy County, New Mexico.

CASE 5133: Application of Atlantic Richfield Company for four non-standard gas proration units and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the following 320-acre non-standard gas proration units in Township 22 South, Range 36 East, Jalmat Gas Pool, Lea County, New Mexico:

The N/2 of Section 34 to be dedicated to its Curran Jones Wells Nos. 1 and 10 located in Units A and C, respectively, of Section 34;

McDonald State Lease:

The N/2 of Section 14 to be dedicated to Wells Nos. 11 and 25 both located in Unit D of Section 14;

The E/2 of Section 26 to be dedicated to Wells Nos. 22, 9, and 8 located in Units A, G, and P, respectively, of Section 26;

The W/2 of Section 24 to be dedicated to Wells Nos. 26 and 12 located in Units D and M, respectively, of Section 24.

CASE 5134: Application of Atlantic Richfield Company for simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the simultaneous dedication of four wells to a standard 640-acre unit comprising all of Section 15, Township 22 South, Range 36 East, Jalmat Gas Pool, Lea County, New Mexico, said wells being applicant's McDonald State WN Wells Nos. 23, 14, 15, and 13, located in Units C, G, L, and P, respectively, of Section 15.

CASE 5135: Application of Atlantic Richfield Company for the amendment of Order No. R-4549, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Rule 1 of the Special Rules for the Empire-Abo Pressure Maintenance Project as promulgated by Order No. R-4549 to expand the project area as defined therein to include the

(Case 5135 continued from Page 2)

SW/4 SE/4 of Section 27 and the S/2 SE/4 of Section 34, both in Township 17 South, Range 28 East, and the NW/4 NE/4 and the SE/4 SW/4 of Section 6, Township 18 South, Range 28 East, Empire-Abo Pool, Eddy County, New Mexico.

Applicant further seeks the amendment of Rules 3 and 4 of said special rules to provide that effective January 1, 1974, the maximum allowable for the project area be 33,000 barrels per day rather than 30,000 as presently provided.

CASE 5136: Application of Coastal States Gas Producing Company for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox oil well location of its McGuffin Well No. 2 at a point 1980 feet from the North line and 660 feet from the West line of Section 29, Township 9 South, Range 33 East, Flying "M"-San Andres Pool, Lea County, New Mexico.

CASE 5137: Application of Skelly Oil Company for two unorthodox locations, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill two producing wells at two unorthodox locations, one 2630 feet from the North line and 1330 feet from the West line and the other 1330 feet from the South line and 10 feet from the West line, both in Section 22, Township 17 South, Range 31 East, Grayburg-Jackson Pool, Eddy County, New Mexico.

CASE 5138: Application of Skelly Oil Company for a waterflood project and four dual completions, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Seven Rivers formation, Fren Pool, through six injection wells in its Skelly Unit Area in Sections 21, 22 and 28, Township 17 South, Range 31 East, Eddy County, New Mexico, three of which wells would be dually completed for injection into the Seven Rivers formation and the existing Grayburg-Jackson waterflood project. Applicant further seeks authority to dually complete its Skelly Unit Well No. 76 located in Unit 0 of said Section 21 as a dual completion to produce from the Fren Seven Rivers Pool and the Grayburg-Jackson Pool through parallel strings of tubing.

CASE 5139: Application of Skelly Oil Company for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Grayburg-San Andres formation through three wells on its Lea "C" Lease in Section 11, Township 17 South, Range 31 East, Grayburg-Jackson Pool, Eddy County, New Mexico.

CASE 5141: Application of David Fasken for directional drilling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to re-enter an existing well, the unorthodox surface location of which is 660 feet from the South and West lines of Section 7, Township 18 South, Range 26 East, West Atoka-Morrow Gas Pool, Eddy County, New Mexico.



(Case 5141 continued from Page 3)

and to directionally drill said well in such a manner as to bottom the well in the Morrow formation at a point 915 feet from the South line and 660 feet from the West line of said Section 7.

CASE 5142: Application of Amoco Production Company for special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Black River-Pennsylvanian Gas Pool, Eddy County, New Mexico, including a provision for 320-acre drilling and proration units. In the absence of objection, this pool will be placed on the standard 320-acre spacing for Pennsylvanian gas pools rather than the present 160-acre spacing.

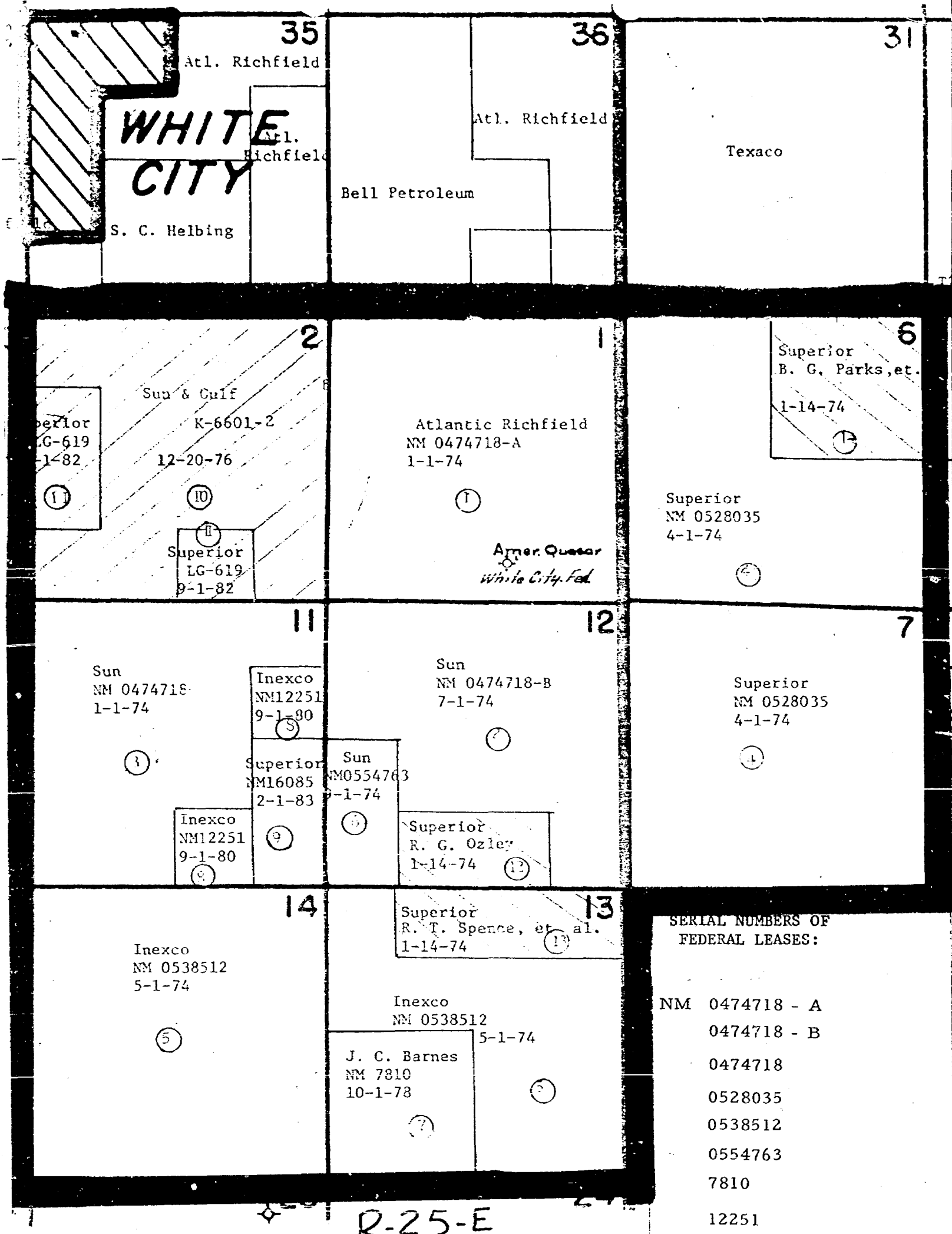
CASE 5140: (This case will be continued to January 16, 1974, Examiner Hearing)

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) (This case will be continued to January 16, 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.

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding		Working Interest Owner and Percentage
							Royalty Owner and Percentage		
							<u>RECAPITULATION</u>		
	Acres Federal Lands,	4,120.00						80.47% of the Unit	
	Acres State Lands,	640.56						12.51% of the Unit	
	Acres Fee Lands,	359.40						7.02% of the Unit	
								100.00%	
		5,119.96							



SERIAL NUMBERS OF  
FEDERAL LEASES:

NM 0474718 - A  
0474718 - B  
0474718  
0528035  
0538512  
0554763  
7810  
12251  
16085

----- OUTLINE OF UNIT AREA

- ① TRACT NUMBER
- FEDERAL LAND, 4,120.00 ACRES  
80.47% OF UNIT AREA
- STATE LAND, 640.56 ACRES  
12.51% OF UNIT AREA
- PATENTED (FEE) LAND, 359.40 ACRES  
7.02% OF UNIT AREA

TOTAL 5,119.96 ACRES

EXHIBIT "A"  
WHITE CITY UNIT  
EDDY COUNTY, NEW MEXICO

BEFORE EXAMINER NUTTER  
OIL CONSERVATION COMMISSION  
EXHIBIT NO. 1  
CASE NO. 5132

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
January 3, 1974

EXAMINER HEARING

IN THE MATTER OF:

Application of American Quasar Petroleum  
Company of New Mexico for a unit agreement  
Eddy County, New Mexico.

Case No.  
5132

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil  
Conservation Commission:

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

MR. NUTTER: We will next call Case No. 5132.

MR. DERRYBERRY: Case 5132. Application of American Quasar Petroleum Company of New Mexico for a unit agreement, Eddy County, New Mexico.

MR. NUTTER: Now, we have had a request from the Applicants in this case for a continuance in the case to January 30. Now, Mr. Borkenhagen, I believe we have a telegram that has been phoned into us from Mr. Grace regarding this case, too, requesting a continuance of it and at the request of Applicant, Case No. 5132 will be continued to the Examiner Hearing scheduled to be held at 9:00 o'clock A.M., January 30, 1974 at the Oil Conservation Commission Conference Room, State Land Office Building, Santa Fe, New Mexico.

I think with that case, we've called on the cases on the Docket for today and the Hearing is adjourned.

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 that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5132, heard by me on 1-3, 19 74.

*John*, 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

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
January 30, 1974

EXAMINER HEARING

IN THE MATTER OF:

Application of American Quasar  
Petroleum Company of New Mexico  
for a unit agreement, Eddy County,  
New Mexico.

Case No. 5132

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

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For the New Mexico Oil  
Conservation Commission:

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

For the Applicant:

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

THE NYE REPORTING SERVICE  
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I N D E X

Page

CHARLES KIMBRO

Direct Examination by Mr. Hinkle

3

Cross Examination by Mr. Nutter

7

E X H I B I T S

Marked    Admitted

Applicant's Exhibits Nos. 1 thru 3

--            7

THE NYE REPORTING SERVICE  
STATE-WIDE DEPOSITION NOTARIES  
225 JOHNSON STREET  
SANTA FE, NEW MEXICO 87501  
TEL. (505) 962-0386



MR. NUTTER: Next call Case 5132.

MR. CARR: Case 5132. Continued from the January 3rd, 1974, Examiner Hearing. Application of American Quasar Petroleum Company of New Mexico for a unit agreement, Eddy County, New Mexico.

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

MR. NUTTER: Any other appearances in Case 5132? You may proceed.

(Witness sworn.)

CHARLES KIMBRO

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 I'm Charles Kimbro. I reside in Midland, Texas, and I'm employed by American Quasar Petroleum Company.

Q What is your position with American Quasar?

A I'm a geologist with them.

Q Have you previously testified before this Commission?

KIMBRO-DIRECT

Page 4

A I have.

Q Qualified as a petroleum geologist?

A Yes.

Q Are your qualifications a matter of record with the Commission?

A Yes.

Q Have you made a study of the White City Unit Area involved in this case?

A I have.

MR. HINKLE: Are the qualifications sufficient?

MR. NUTTER: Yes, they are.

BY MR. HINKLE:

Q Are you familiar with the Application of American Quasar in this case?

A Yes, I am.

Q What is the purpose of the Application?

A The purpose of the Application is to receive confirmation of State approval for the Federal Unit that has a State tract included within the bounds of the Federal Unit.

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

A There has been.

Q Referring to Exhibit No. 1, explain what this is,

KIMBRO-DIRECT

Page 5

what it shows?

A Exhibit No. 1 is an outline of the unit boundary which was proved by the U.S.G.S. and it contains the lease holdings information within the unit.

Q It shows the ownership of all of the leases?

A Yes.

Q The location of the unit well?

A Yes, it does in Section 1.

Q Now, refer to Exhibit No. 2 and explain what that shows?

A Exhibit No. 2 is a net porosity isopach of the Morrow sands. It shows the confines of the productive limits of the Morrow sands within the White City Field and also within the interpreted confines of the first Morrow sands within the Federal Unit.

Q Do you have any further comments on this?

A No.

Q Refer to Exhibit No. 3 and explain what this shows.

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Q It also shows the location of the unit well?

KIMBRO-DIRECT

Page 6

A Yes, it does.

Q What is the status of the unit well?

A The well has been drilled and has been completed as a dry hole.

Q Does American Quasar contemplate any further development within the unit area?

A It is entirely possible there will be additional development either by American Quasar or we might cause the well to be drilled.

Q This is why you want to go ahead and get approval of the unit?

A Yes. There will be necessity for additional investigation prior to such a recommendation.

Q Now, I believe you mentioned this area has been approved, the designation of it, by U.S.G.S.?

A Yes, it has.

Q Has the form been approved by the U.S.G.S.?

A Yes.

Q And the form which has been filed with the Application is substantially the U.S.G.S. Form with modifications where State acreage is involved?

A Yes, sir.

Q Is American Quasar designated as the unit's operator?

KIMBRO-DIRECT

Page 7

A Yes, sir.

Q What is the status of execution of the unit by the various working interest owners?

A Everyone participated and approved the unit.

Q Now, in your opinion, if the unit agreement should be approved and production is later obtained on the unit, will it be in the interest of conservation, prevention of waste and protect correlative rights?

A Yes.

MR. HINKLE: We would like to offer Exhibits 1 through 3.

MR. NUTTER: Applicant's Exhibits 1 through 3 will be admitted.

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

MR. HINKLE: That's all of this witness.

CROSS EXAMINATION

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Q Mr. Kimbro, I notice in the unit agreement that was submitted with the Application, that it calls for a well to be drilled to the base of the Morrow or 11,700. Has this well that you are talking about here in Section 1, has that

KIMBRO- CROSS

Page 8

been drilled to that depth?

A Yes, sir, we drilled to 11,850.

Q It also called for the drilling of additional wells allowing not more than six months between wells. This is kind of unusual for an operator to come in and ask for an agreement after the well has already been drilled. It's common place that the second well would be drilled or else the unit would die of its own term?

A Yes, sir, that's true. Our position in this was, of course, we had to begin the well prior to January 1. It was during December there were no cases to be heard and we did check with all the State agencies in order to proceed with the unit. It's unfortunate.

Q It was continued from January 3rd to this present date?

A Yes.

Q In the meantime --

A (Interrupting) The well is down. The well is completed.

Q I see.

MR. NUTTER: Are there any further questions of Mr. Kimbro? You may be excused.

(Witness excused.)


MR. NUTTER: Do you have anything further, Mr.  
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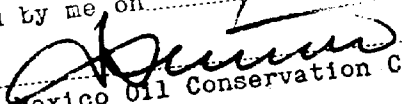
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New Mexico Oil Conservation Commission

THE NYE REPORTING SERVICE  
STATE-WIDE DEPOSITION NOTARIES  
225 JOHNSON STREET  
SANTA FE, NEW MEXICO 87501  
TEL. (505) 942-0386



BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
January 3, 1974

EXAMINER HEARING

IN THE MATTER OF:

Application of American Quasar Petroleum  
Company of New Mexico for a unit agreement  
Eddy County, New Mexico.

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BEFORE: Daniel S. Nutter, Examiner

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BEFORE THE  
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I N D E X

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KIMBRO-CROSS

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MR. NUTTER: Are there any further questions of Mr. Kimbro? You may be excused.

(Witness excused.)

MR. NUTTER: Do you have anything further, Mr.  
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MR. HINKLE: That's all.

MR. NUTTER: Does anybody have anything further  
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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. 5132 heard by me on 1/30, 1974.

*[Signature]* 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

DRAFT

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. 5132

Order No. R-4720

APPLICATION OF AMERICAN QUASAR PETROLEUM COMPANY OF NEW MEXICO  
FOR APPROVAL OF THE WHITE CITY  
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 30, 1967, at Santa Fe, New Mexico, before Examiner  
Daniel S. Nutter.

NOW, on this        day of February, 1967, 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, American Quasar Petroleum Company, of New  
Mexico seeks approval of the White City Unit Agreement  
covering 5,120 acres, more or less, of State,  
Federal lands  
and Fee  
described as follows:

Eddy COUNTY, NEW MEXICO  
TOWNSHIP 25 South, RANGE 25 East, NMPM  
~~TOWNSHIP 25 SOUTH, RANGE 26 EAST, NMPM~~

Sections 1 and 2: All  
through 14: All  
Sections 11 ~~and 12~~

Township 25 South Range 26 East NMPM  
Sections 6 and 7: 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 White City 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.