

CASE 2141: Application of HONOLULU  
for approval of its McKITTRICK  
CANYON UNIT AGREEMENT. T

Casa No.

2141

Application, Transcript,  
Small Exhibits, Etc.

BEFORE THE  
OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO  
DECEMBER 12, 1960

IN THE MATTER OF:

CASE 2141 Application of Honolulu Oil Corporation for approval of a unit agreement. Applicant, in the above-styled cause, seeks approval of its McKittrick Canyon Unit Agreement, which unit is to embrace 6708 acres of Federal, State and fee lands in Township 22 South, Ranges 25 and 26 East, Eddy County, New Mexico.

BEFORE:

Elvis A. Utz, Examiner.

T R A N S C R I P T    O F    P R O C E E D I N G S

MR. UTZ: Case 2141.

MR. MORRIS: Case 2141. Application of Honolulu Oil Corporation for approval of a unit agreement.

MR. BRATTON: Howard Bratton, Roswell, New Mexico, appearing on behalf of the applicant, Honolulu Oil Corporation. We have two witnesses, and I ask that they be sworn.

(Witnesses sworn)

MR. UTZ: Any other appearances in this case? (No response)

LEO BRADY,

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

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PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO



DIRECT EXAMINATION

BY MR. BRATTON:

Q Will you state your name, occupation and address?

A Leo O. Brady, Division Lineman, Honolulu, Midland, Texas.

Q Are you familiar with the matters contained in the application in Case 2141, the area under consideration, and the unit agreement?

A Yes, sir.

Q All right, sir. Will you state the area covered by the proposed unit agreement?

A The unit agreement embraces the east half of Section 22, all of Sections 23, 24, 25 and 26. The east half of Section 27. The east half of Section 34, and all of Sections 35 and 36, Township 22 South, Range 25 East, and all of Sections 19, 30 and 31, Township 22 South, Range 26 East Eddy County, New Mexico containing 6708.28.

Q And in the unit area there are 5200 acres. Federal lands, approximately 1270 acres of State land and 160 acres of fee land?

A Yes, sir.

Q Mr. Brady, has a copy of the proposed unit agreement which has been turned in with the application in this case, has it not?

A Yes.

Q We would ask that it be marked as Exhibit No. 1 in the case.

MR. UTZ: All right, sir.

(Whereupon, Applicant's Exhibit

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No. 1 marked for identification)

Q (By Mr. Bratton) Referring, then, Mr. Brady, to your Exhibits in the blue folder, will you explain what Exhibit No. 2 is?

A Exhibit No. 2 in the blue folder is an exhibit to the unit agreement. It is a plat map showing the area outlined and the next of acres Federal, State and Fee lands and also indicates the area, number of lease and another working interest owner, and the number of acres in each lease. The tract, the nomination refers to tract number and Exhibit B to the unit agreement.

Q Now, the unit agreement referred to, Mr. Brady, is that a typical Federal participating area type of unit agreement?

A Yes, sir.

Q And Honolulu is the unit operator?

A Yes.

Q What does the unit agreement provide for by way of test well?

A The agreement provides for drilling of an exploratory well to test the Devonian formation which is expected to be encountered at approximately 12,000 feet.

Q And you have stated, Mr. Brady, this is a standard and Federal type of unit agreement?

A Federal type participating.

Q Have you received tentative approval of this unit both as to form and content and designation of area from the U.S.

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Geological Survey?

A Yes, sir.

Q That was in the form of an informal verbal approval given by the Director of U.S.G.S. to Mr. Ekland in Washington?

A Yes.

Q Has this matter been submitted to the State Land Commissioner?

A Yes, sir.

Q And have you received tentative approval as to the form and content and designation of the area from the State Land Commissioner?

A Yes, sir, we received an oral approval.

Q Final approval has been delayed by processing and illnesses within the Land Office?

A Yes.

Q Mr. Brady, have you obtained comment or ratification by agreement with the working interest owner and royalty overriding working interest owners?

A Yes, sir, we received 100 percent oral approval by the working interest owners. The agreement is not being circulated for signature before we have obtained ratification by 100 percent of the Federal overriding royalty owners and we have received approximately 50 percent of approval of fee owners and the ratification is now being circulated among the remainder of the fee owners.



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Q So that all have a very high percentage of agreement to the area unit?

A We will obtain 100 percent approval.

Q As to the unit operating agreement, Mr. Brady, among the operators, is it an undivided interest agreement?

A Yes. It is a, what would be termed the fully participating interest whereby all the working interests share in all costs and all production and a proportion of their interest in the unit area.

Q But the royalty and overriding interest owners are governed by the unit agreement which is a standard participating area?

A It is provided in Paragraph 11 in the unit agreement.

Q There are expanding and contracting provisions?

A Yes, sir.

Q And are there any wells--

A Section 26 of the agreement--

Q Are any wells drilled or drilling in the unit area?

A No, sir -- yes, our well.

Q Now, Mr. Brady, you say "our well," you are referring to the unit well?

A Yes, sir.

Q Would you explain to the Commission the status of that well?

A Well, we started this well during the month of October known as the No. 1 McKittrick Canyon unit well. It is now drill-



ing at approximately 6,000 feet.

Q And that is the well which will be the initial test well under the unit agreement?

A Yes, sir.

Q And by virtue of the fact that well is not drilling, you would appreciate every expeditious treatment that could be granted to this application?

A Very much so.

Q All right, sir. Mr. Brady, you are the Division landman and you have checked the ownership and status of ownership as reflected in the Exhibit, haven't you?

A Yes.

Q Is there anything else you would care to bring out, Mr. Brady?

A I believe not.

Q Was Exhibit No. 2 prepared by you or under your supervision?

A Yes, sir.

MR. BRATTON: Our second witness will be -- excuse me, you might have questions of this witness at this time.

MR. UTZ: Did you want to introduce 1 or 2 at this time?

MR. BRATTON: I would offer in evidence Exhibit 1 and 2.

MR. UTZ: Exhibits 1 and 2 will be entered into the record.

(Whereupon, Applicant's Exhibits

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CROSS-EXAMINATION

BY MR. PAYNE:

Q Mr. Brady, what did you use in determining the size of the unit?

A I believe that will be covered more fully by Mr. Hoy, geologically.

Q Do you know the unit agreement provides for the test well each six months.

MR. PAYNE: Thank you.

(Witness excused)

GEORGE R. HOY,

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

DIRECT EXAMINATION

BY MR. BRATTON:

Q Will you state your name, address and occupation?

A George R. Hoy. I am employed in Midland, Texas by Honolulu Oil Corporation as Division Drilling and Proration Engineer.

Q How is that spelled?

A H-o-y.

Q Have you previously testified before this Commission and are your qualifications as an engineer a matter of record?

A Yes, sir, they are.

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Q You are familiar with the matters contained in the subject application and with the proposed McKittrick Canyon area?

A Yes, sir.

MR. BRATTON: Are the witness' qualifications acceptable?

MR. UTZ: Yes, sir, they are.

(Whereupon, Applicant's Exhibit No. 3 marked for identification)

Q Now, Mr. Hoy, referring to what has been marked as Exhibit 3 in the blue folder, will you explain what it is and what it shows?

A It is a subsurface map contoured to the top of the Devonian formation. Also showing a gravity anomaly which is outlined in green. The top of the Devonian being outlined in blue. It also covers the unit area involved in this application on the surrounding lines.

Q Excuse me, Mr. Hoy. I left you there for a minute. Did you explain everything on Exhibit 3 you desired to?

A Yes sir.

(Whereupon, Applicant's Exhibit No. 4 marked for identification)

Q Referring to what has been marked as Exhibit 4, would you explain that?

A On referring to Exhibit No. 4, which is a plat map of the unit area and also surrounding land. On Exhibit No. 4 in Section 23, Township 22, South, Range 24 East Northern Natural Gas McKittrick No. 1 drilled to the total depth to 20,890; in



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Section 20, Township 22 South, Range 25 East. Standard No. 1 Well drilled to the 1,354. The right-hand side of Exhibit 4 notice Humble Federal No. 1 Well, which is a well drilled to the 14,865 feet. From these three wells and other wells on Exhibit 4 we have contoured the top of the Devonian shown on Exhibit No. 3. As I have stated previously, the green lines depict gravity anomaly which lies within the unit area of the proposed application of the McKittrick Canyon unit.

Q (Whereupon, Applicant's Exhibit No 5 marked for identification)

Q All right, sir. Would you refer to Exhibit No. 5, Mr. Hoy, and explain what that is?

A Exhibit No. 5 is colored photograph of a cross-section going from northwest to southeast through the wells that I have mentioned previously which are shown on Exhibit No. 4.

(Whereupon, Applicant's Exhibit No. 6 marked for identification)

Q In referring, then, to your Exhibit No. 6, Mr. Hoy, would you explain what that is?

A Exhibit No. 6 is a stratigraphic section of the interval we expect to penetrate in drilling this McKittrick Canyon well. We expected to contour the top of the Devonian 11,890, at our primary objective. Oil and gas symbol zone on this Exhibit indicate further possible pay zones in the Wolf Canyon Morrow and so on.



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Q Mr. Hoy, in your opinion, does the proposed unit area cover substantially all of that geophysically reflected on Exhibit No. 3?

A Yes, sir, it does.

Q Do you believe that the proposed boundaries of the unit area encompass a sufficient area to assure adequate control of the structure?

A Yes.

Q Do you believe it does not cover excessive acreage?

A We do not think so, no.

Q Mr. Hoy, in your opinion, will the granting of this application be in the interest of conservation and protection of correlative rights?

A Yes, sir.

Q And do you believe that in the event oil or gas were found in the unit, the unit agreement will permit a more economic and efficient recovery of the unitized substances?

A Yes, I do.

Q Is there anything else you care to point out in connection with this application of any of the Exhibits you have discussed?

A No, sir, I have nothing further.

Q Were Exhibits 3 through 6 prepared by you or under your supervision?

A Yes, sir, they were prepared under my supervision.





MR. BRATTON: We would offer in evidence Exhibits 3 through 6.

MR. UTZ: Exhibits 3 through 6 will be entered into evidence.

(Whereupon, Applicant's Exhibits 3 through 6 received in evidence)

CROSS-EXAMINATION

BY MR. UTZ:

Q Mr. Hoy, referring to Exhibit 3, the blue contours is the size contours?

A No, sir, they are -- our interpretation is they contour to the top of the Devonian as we determine by subsurface geology.

Q The wells in the area?

A Yes, sir.

Q And is the shown proposed location on this Exhibit the location of the actual drilling well?

A That is correct.

MR. UTZ: Any other questions?

BY MR. PAYNE:

Q Mr. Hoy, I don't recall whether you testified on this or not. what percentage of the working interest owners are committed at present?

A I do not know. Mr. Brady testified to that.

MR. PAYNE: Mr. Brady, could you go through that again?

MR. BRADY: All are committed except Skelly Oil Company

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which has a 40-acre tract out of 6700.

Q Do you have any of the fee royalty owners committed?

A Fee royalty owner under Exhibit B.

MR. BRADY: We have Ralph Shubert who owns one-half of the 120 fee acres.

Q He is committed?

A Yes, sir.

Q And the major part of the area is either State or Federal?

A Right.

MR. PAYNE: Thank you.

MR. UTZ: Any other questions? (No response) No further questions, the witness may be excused.

(Witness excused)

MR. BRATTON: Mr. Examiner, we would request that the Exhibits 1 through 5 be withdrawn from the case as we would like to treat them as confidential for a while. If the Commission or anybody would care to examine the case file, we would, of course, make them available to the Commission, and would, of course, file them permanently with the Commission shortly after the present well is drilled.

MR. UTZ: We will give you these Exhibits and let you take them out. Any statements in this case? (No response) If not, the case will be taken under advisement.



STATE OF NEW MEXICO )  
 ) ss  
 COUNTY OF BERNALILLO )

I, LLEWELYN NELSON, Court Reporter, in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in machine shorthand and reduced to typewritten transcript under my personal supervision, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this, the 16 day of Dec, 1960, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Llewellyn J. Nelson  
 NOTARY PUBLIC

My Commission expires:

June 14, 1964

I do hereby certify that the foregoing is a complete record of the proceedings in the New Mexico Oil Conservation Commission, heard by me on Dec 12, 1960.  
James A. [Signature] Examiner  
 New Mexico Oil Conservation Commission

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MR. BRADY: We have Ralph Shubert who owns one-half of the 120 fee acres.

Q He is committed?

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MR. UTZ: Any other questions? (No response) No further questions, the witness may be excused.

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STATE OF NEW MEXICO )  
 ) ss  
 COUNTY OF BERNALILLO )

I, LLEWELYN NELSON, Court Reporter, in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in machine shorthand and reduced to typewritten transcript under my personal supervision, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this, the 16 day of Dec, 1960, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

*Llewellyn Nelson*  
 NOTARY PUBLIC

My Commission expires:

June 14, 1964

I do hereby certify that the foregoing is a complete record of the proceedings in the Oil Conservation Commission of Case No. 2141, heard by me on Dec. 12, 1960.

*John A. Smith*, Examiner  
 New Mexico Oil Conservation Commission

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ALBUQUERQUE, NEW MEXICO





C  
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Y

2141  
April 12, 1962

Pan American Petroleum Corporation  
P. O. Box 268  
Lubbock, Texas

Re  
Re: Termination of  
McKittrick Canyon Unit,  
Eddy County, New Mexico

Attention: Mr. Jack D. Anderson

Gentlemen:

The Commissioner of Public Lands has approved, as of this date, your Application for Termination of McKittrick Canyon Unit, Eddy County, New Mexico.

Upon approval of this termination by the United States Geological Survey, please furnish us a fully approved copy and the effective date of termination, which we assume will be February 19, 1962.

We are returning ten approved copies of this termination.

Very truly yours,

E. S. JOHNNY WALKER  
COMMISSIONER OF PUBLIC LANDS

BY:  
(Mrs.) Marian M. Rhea, Supervisor  
Unit Division

ESW/mmr/v  
cc: U.S. Geological Survey  
Roswell, New Mexico

Oil Conservation Commission  
Santa Fe, New Mexico

PAN AMERICAN PETROLEUM CORPORATION

MAIN OFFICE OCC

1962 APR 19 AM 11 17, 1962  
Lubbock, Texas

Lease No. 228266  
Eddy County  
New Mexico

Mr. John Anderson  
Regional Supervisor  
USGS  
Roswell, New Mexico

Dear Sir:

We are filing herewith ten copies of Agreement terminating the McKittrick Canyon Unit Agreement. Said termination application being dated as of February 19, 1962, and is executed by more than 75% of the working interest owners, being Pan American, Gulf Oil Corporation, Ernest Hanson, and Union Oil Company of California. You will note that the Agreement has been approved by Mr. E. S. Walker, Commissioner of Public Lands on April 12, 1962.

As soon as this application is approved, will you please return to us all copies not required for your office in order that we might furnish the Commissioner of Public Lands with a fully executed copy.

Yours very truly,

PAN AMERICAN PETROLEUM CORPORATION

John H. Thompson

JHT:dd

cc: Commissioner of Public Lands ✓  
P. O. Box 791  
Santa Fe, New Mexico

Oil Conversation Commission  
Santa Fe, New Mexico

COPY

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE No. 2141  
Order No. R-1838

THE APPLICATION OF HONOLULU OIL  
CORPORATION FOR APPROVAL OF THE  
MCKITTRICK CANYON UNIT AGREEMENT  
EMBRACING 6708 ACRES, MORE OR  
LESS, LOCATED IN TOWNSHIP 22  
SOUTH, RANGES 25 and 26 EAST,  
NMPM, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on December 12, 1960, at Santa Fe, New Mexico, before Elvis A. Utz, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 14th day of December, 1960, the Commission, a quorum being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Elvis A. Utz, 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 proposed unit plan will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

(1) That this order shall be known as the MCKITTRICK CANYON UNIT AGREEMENT ORDER.

(2) (a) That the project herein referred to shall be known as the McKittrick Canyon Unit Agreement and shall hereinafter be referred to as the "Project."

(b) That the Plan by which the project shall be operated shall be embraced in the form of a unit agreement for the

development and operation of the McKittrick Canyon Unit Area, referred to in the Petitioner's petition and filed with said petition, and such plan shall be known as the McKittrick Canyon Unit Agreement Plan.

(3) That the McKittrick Canyon Unit Agreement Plan shall be, and hereby is, 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 construed as waiving or relinquishing in any manner any right, duties or obligations which are now, or may hereafter be, vested in the New Mexico Oil Conservation Commission by law relative to the supervision and control of operations for exploration and development of any lands committed to said McKittrick Canyon Unit Agreement, or relative to the production of oil and gas therefrom.

(4) (a) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

TOWNSHIP 22 SOUTH, RANGE 25 EAST

Section 22: E/2  
Section 23: All  
Section 24: All  
Section 25: All  
Section 26: All  
Section 27: E/2  
Section 34: E/2  
Section 35: All  
Section 36: All

TOWNSHIP 22 SOUTH, RANGE 26 EAST

Section 19: All  
Section 30: All  
Section 31: All

containing 6708 acres, more or less.

(b) The unit area may be enlarged or contracted as provided in said Plan; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the McKittrick Canyon Unit Agreement within 30 days after the effective date thereof.

(6) That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the

-3-

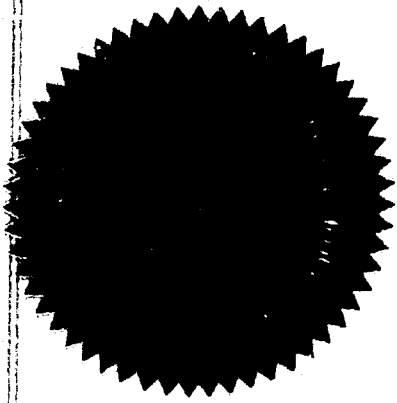
CASE No. 2141  
Order No. R-1838

effective date thereof may thereafter become a party thereto by subscribing to such agreement or counterpart thereof, or by ratifying the same. The unit operator shall file with the Commission within 30 days an original of any such counterpart or ratification.

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
*John Burroughs*  
JOHN BURROUGHS, Chairman

*Murray E. Morgan*  
MURRAY E. MORGAN, Member

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

esx/

Use 3(b) only if  
no federal acreage  
is included.

(b) That the unit operator periodically shall file with the Commission a Unit Statement of Progress, summarizing operations for the exploration and development of any lands committed to said Unit Agreement. This statement of progress shall be filed within 30 days after the expiration of each six-months period during the term of the unit agreement, and shall contain such pertinent data as may be necessary for the Commission to determine the progress being made in the Unit Area.

(4) (a) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

TOWNSHIP 22 South, RANGE 25 East

Section 22: E/2

Sections 23, 24, 25, 26: All

Section 27: E/2

Section 34: E/2

Sections 35 and 36: All

TOWNSHIP 22 SOUTH, RANGE 26 EAST

Sections 19, 30 and 31: All

containing 6708 acres, more or less.

~~(Unit if Agreement does not so provide)~~ (b) The unit area may be enlarged or contracted as provided in said Plan; <sup>provided, however, that administrative approval for expansion or contraction of</sup> the unit area must also be obtained from the Secretary-Director of the Commission.  
(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the McKittrick Canyon Unit Agreement within 30 days after the effective date thereof.

(6) That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the effective date thereof may thereafter become a party thereto by subscribing to such agreement or counterpart thereof, or by ratifying the same. The unit operator shall file with the Commission within 30 days an original of any such counterpart or ratification.

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

, Chairman

, Member

, Member & Secretary

S E A L

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE NO. 2141  
Order No. 1838

THE APPLICATION OF Honolulu Oil  
Corporation  
FOR ~~THE~~ APPROVAL OF the McKittrick  
Canyon UNIT  
AGREEMENT EMBRACING 6708  
ACRES, MORE OR LESS, LOCATED IN TOWNSHIP  
22 South, RANGES 25 and 26 East  
NMPM, Eddy COUNTY, NEW  
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock 2 m. on December 12,  
1960 at Santa Fe, New Mexico, before Elvis A. Utz,  
Examiner duly appointed by the Oil Conservation  
Commission of New Mexico, hereinafter referred to as the  
"Commission," in accordance with Rule 1214 of the  
Commission Rules and Regulations.

NOW, on this        day of December, 1960, the Commission, a quorum being  
present, having considered the application, the evidence  
adduced, and the recommendations of the Examiner, Elvis A. Utz,  
and being fully advised in the premises,

FINDS:

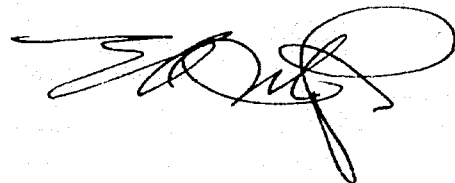
- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That the proposed unit plan will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

- (1) That this order shall be known as the  
CPS McKittrick Canyon UNIT AGREEMENT ORDER.
- (2) (a) That the project herein referred to shall be known as the McKittrick  
Canyon Unit Agreement and shall hereinafter be referred to as the "Project."  
(b) That the Plan by which the project shall be operated shall be embraced  
in the form of a unit agreement for the development and operation of the McKittrick  
Canyon Unit Area, referred to in the Petitioner's petition and filed with said  
petition, and such plan shall be known as the McKittrick Canyon Unit Agreement Plan.
- (3) That the McKittrick Canyon Unit Agreement Plan shall be, and  
hereby is, 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, duties or obligations  
which are now, or may hereafter, be vested in the New Mexico Oil Conservation Commission by  
law relative to the supervision and control of operations for exploration and development of  
any lands committed to said McKittrick Canyon Unit Agreement, or relative  
to the production of oil and gas therefrom.

Case #2148  
Herald 12-12-60  
Recom. 12-12-60

1. Recommend approval of unit  
in usual manner ~~for~~ the  
McKittrick Canyon unit is to  
be operated by. Honolulu Out.  
Coffee.





J. M. HERVEY 1874-1953

HIRAM M. DOW  
CLARENCE E. HINKLE  
W. E. BONDURANT, JR.  
GEORGE H. HUNKER, JR.  
HOWARD C. BRATTON  
S. B. CHRISTY IV  
LEWIS C. COX, JR.  
PAUL W. EATON, JR.

CONRAD E. COFFIELD

LAW OFFICES  
HERVEY, DOW & HINKLE  
HINKLE BUILDING  
ROSWELL, NEW MEXICO

November 28, 1960

TELEPHONE MAIN 2-8510

POST OFFICE BOX 647 03

Case  
2141

New Mexico Oil Conservation Commission  
Capitol Building  
Santa Fe, New Mexico

Re: Application of Honolulu Oil Corporation  
for Approval of McKittrick Canyon Unit  
Agreement

Gentlemen:

We enclose herewith three (3) copies of Exhibit  
"B" to be attached to the three copies of the form of the  
Unit Agreement which was filed with the Application of Hono-  
lulu for approval of the above Unit.

Very truly yours,

HERVEY, DOW & HINKLE

By 

CEH:bc

Encls.

cc: Honolulu Oil Corp.

DOCKET: EXAMINER HEARING, MONDAY, DECEMBER 12, 1960

Oil Conservation Commission - 9 a.m., STATE LAND OFFICE BUILDING, SANTA FE, NM

The following cases will be heard before Elvis A. Utz, Examiner, or Oliver E. Payne, attorney, as alternate examiner:

CASE 2136: Application of Byard Bennett for a non-standard gas proration unit and for an unorthodox gas well location. Applicant, in the above-styled cause, seeks the establishment of an 80-acre non-standard gas proration unit in the Jalmat Gas Pool consisting of the E/2 NW/4 of Section 24, Township 25 South, Range 36 East, Lea County, New Mexico, said unit to be dedicated to the Ascarte-Federal Well No. 1, located at an unorthodox location at a point 330 feet from the North line and 2310 feet from the West line of said Section 24.

CASE 2137: Application of Caulkins Oil Company for a non-standard gas proration unit. Applicant, in the above-styled cause, seeks the establishment of a 320-acre non-standard gas proration unit in the Basin-Dakota Pool, San Juan and Rio Arriba Counties, New Mexico, comprising the SE/4, S/2 NE/4 and S/2 SW/4 of Section 16, Township 26 North, Range 6 West. Said unit is to be dedicated to the D-268 well located in the SE/4 NE/4 of said Section 16.

CASE 2138: Application of Skelly Oil Company for permission to commingle the production from two separate pools. Applicant, in the above-styled cause, seeks permission to commingle without separately measuring the production from the Penrose Skelly and Drinkard Pools from all wells presently completed on its Baker "B" Lease consisting of the SW/4 and the W/2 SE/4 of Section 10, Township 22 South, Range 37 East, Lea County, New Mexico.

CASE 2139: Application of Cosden Petroleum Corporation for the promulgation of special rules and regulations governing the South Prairie-Pennsylvanian Pool, Roosevelt County, New Mexico, including a provision for 80-acre oil proration units.

CASE 2140: Application of Humble Oil & Refining Company for approval of the North Kirtland Unit Agreement. Applicant, in the above-styled cause, seeks approval of the North Kirtland Unit Agreement, which unit embraces 11,478 acres of Federal and State land in Township 30 North, Range 14 West, San Juan, New Mexico.

CASE 2141: Application of Honolulu Oil Corporation for approval of a unit agreement. Applicant, in the above-styled cause, seeks approval of its McKittrick Canyon Unit Agreement, which unit is to embrace 6708 acres of Federal, State and fee lands in Township 22 South, Ranges 25 and 26 East, Eddy County, New Mexico.

CASE 2145: Application of Oil Development Company of Texas for off-lease storage of oil. Applicant, in the above-styled cause, seeks an order authorizing it to store the East Crossroads-Devonian production from its Santa Fe Pacific Railroad Lease (S/2 SW/4 of Section 19, Township 9 South, Range 37 East) in a separate tank battery to be located on its Santa Fe Pacific Railroad Lease, Crossroads-Devonian Pool (NE/4 of Section 26, Township 9 South, Range 36 East) both in Lea County, New Mexico.

CASE 2146: Application of Humble Oil & Refining Company for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its D. H. Crockett Well #1, located in Unit C, Section 21, Township 15 South, Range 36 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Caudill-Wolfcamp Pool and the production of oil from the Caudill-Devonian Pool through the annulus between strings of 5½-inch casing and 2½-inch tubing and through 2½-inch tubing, respectively.

J. M. HERVEY 1874-1953

HIRAM M. DOW  
CLARENCE E. HINKLE  
W. E. BONDURANT, JR.  
GEORGE M. HINKER, JR.  
HOWARD C. BRATTON  
S. B. CHRISTY IV  
LEWIS C. COX, JR.  
PAUL W. EATON, JR.  
CONRAD E. COFFIELD

LAW OFFICES  
HERVEY, DOW & HINKLE MAIN OFFICE 000

HINKLE BUILDING

ROSWELL, NEW MEXICO

November 22, 1960

1960 NOV 23 PM 1:54  
TELEPHONE MAIN 2-8510  
POST OFFICE BOX 547

*Case 2141*

Mr. A. L. Porter, Jr.  
Secretary-Director  
New Mexico Oil Conservation Commission  
State Capitol  
Santa Fe, New Mexico

Re: McKittrick Canyon Unit Agreement  
Eddy County, New Mexico

Dear Mr. Porter:

We hand you herewith, in triplicate, application of the Honolulu Oil Corporation for approval of the above Unit Agreement, together with three copies of the proposed form of Unit Agreement. We have heretofore discussed this matter with Mr. Oliver Payne, and it is our understanding that he has arranged to have this matter set for your Examiner's Hearing on December 12, 1960. We would appreciate your furnishing us with a copy of the notice.

Yours very truly,

HERVEY, DOW & HINKLE

By *Clarence E. Hinkle*

CEH:bc  
Encls.  
cc: Honolulu Oil Corp.

*Rechecked  
Mailed  
12-5-60*

BEFORE THE OIL CONSERVATION COMMISSION  
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF  
McKITTRICK CANYON UNIT AGREEMENT  
EDDY COUNTY, NEW MEXICO

New Mexico Oil Conservation Commission  
Santa Fe, New Mexico

*Case 2141*

Comes the undersigned, Honolulu Oil Corporation, a Delaware corporation with offices at Midland, Texas, and files herewith three copies of the proposed unit agreement for the development and operation of the McKittrick Canyon Unit Area, Eddy County, New Mexico, and hereby makes application for the approval of said unit agreement as provided by law, and in support thereof, states:

1. That the proposed unit area covered by said agreement embraces 6,708.20 acres, more or less, more particularly described as follows:

NEW MEXICO PRINCIPAL MERIDIAN

Township 22 South, Range 25 East

Section 22:  $E\frac{1}{2}$   
Sections 23, 24, 25, 26: All  
Section 27:  $E\frac{1}{2}$   
Section 34:  $E\frac{1}{2}$   
Sections 35 and 36: All

Township 22 South, Range 26 East

Section 19: All  
Sections 30 and 31: All

2. That of the lands embraced within the proposed unit area, 5,274.40 acres are Federal lands, 1,273.80 acres are lands of the State of New Mexico and 160 acres are fee lands. That application has heretofore been made to the Director of the United States Geological Survey and the Commissioner of Public Lands for

the designation of said area as being suitable and proper for unitization.

3. That the Honolulu Oil Corporation and most of the other owners of oil and gas leasehold interests within the proposed unit area have heretofore commenced, and are in the process of, drilling a well which is located 1,650 feet from the north line and 2,310 feet from the east line of Section 25, Township 22 South, Range 25 East, N.M.P.M., and it is anticipated that said well will be completed in the Devonian formation the latter part of January, 1961. Said well is to be drilled in conformity with the provisions of Section 9 of said proposed Unit Agreement to a depth sufficient to test the Devonian formation, but Unit Operator is not to be obligated to drill said well in excess of 12,000 feet. It is anticipated that said well will entail an expenditure, if completed as a producing well, of approximately \$340,000.00.

4. That said Unit Agreement is in substantially the same form as unit agreements heretofore approved by the Commissioner of Public Lands of the State of New Mexico where Federal, State and fee lands are involved, and it is believed that in the event oil or gas in paying quantities is discovered on the land within the unit area, that the field or area can be developed more economically and efficiently under the terms of said agreement and that the same will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said field, and that the State of New Mexico will receive its fair share of the recoverable oil or gas in place under the land in the unit area, and that said agreement is in all respects for the best interest of the State of New Mexico.

5. That upon an order being entered by the New Mexico

Oil Conservation Commission approving said Unit Agreement and after approval thereof by the Commissioner of Public Lands of the State of New Mexico and the Director of the United States Geological Survey, an approved copy thereof will be filed with the New Mexico Oil Conservation Commission.

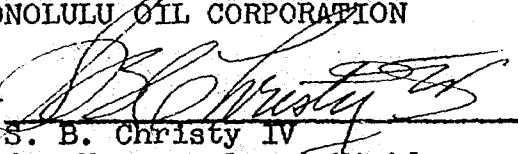
WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner on the matter of the approval of said unit agreement, and upon hearing, said unit agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and the prevention of waste.

DATED this the 22nd day of November, 1960.

Respectfully submitted,

HONOLULU OIL CORPORATION

By

  
S. B. Christy IV  
for Hervey, Dow & Hinkle  
P. O. Box 547  
Roswell, New Mexico  
Attorneys for Applicant

*Docket  
mailed  
12-5-60  
OK*

BEFORE THE OIL CONSERVATION COMMISSION  
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF  
McKITTRICK CANYON UNIT AGREEMENT  
EDDY COUNTY, NEW MEXICO

New Mexico Oil Conservation Commission  
Santa Fe, New Mexico

Comes the undersigned, Honolulu Oil Corporation, a Delaware corporation with offices at Midland, Texas, and files herewith three copies of the proposed unit agreement for the development and operation of the McKittrick Canyon Unit Area, Eddy County, New Mexico, and hereby makes application for the approval of said unit agreement as provided by law, and in support thereof, states:

1. That the proposed unit area covered by said agreement embraces 6,708.20 acres, more or less, more particularly described as follows:

NEW MEXICO PRINCIPAL MERIDIAN

Township 22 South, Range 25 East

Section 22: E $\frac{1}{2}$   
Sections 23, 24, 25, 26: All  
Section 27: E $\frac{1}{2}$   
Section 34: E $\frac{1}{2}$   
Sections 35 and 36: All

Township 22 South, Range 26 East

Section 19: All  
Sections 30 and 31: All

2. That of the lands embraced within the proposed unit area, 5,274.40 acres are Federal lands, 1,273.80 acres are lands of the State of New Mexico and 160 acres are fee lands. That application has heretofore been made to the Director of the United States Geological Survey and the Commissioner of Public Lands for



the designation of said area as being suitable and proper for unitization.

3. That the Honolulu Oil Corporation and most of the other owners of oil and gas leasehold interests within the proposed unit area have heretofore commenced, and are in the process of, drilling a well which is located 1,650 feet from the north line and 2,310 feet from the east line of Section 25, Township 22 South, Range 25 East, N.M.P.M., and it is anticipated that said well will be completed in the Devonian formation the latter part of January, 1961. Said well is to be drilled in conformity with the provisions of Section 9 of said proposed Unit Agreement to a depth sufficient to test the Devonian formation, but Unit Operator is not to be obligated to drill said well in excess of 12,000 feet. It is anticipated that said well will entail an expenditure, if completed as a producing well, of approximately \$340,000.00.

4. That said Unit Agreement is in substantially the same form as unit agreements heretofore approved by the Commissioner of Public Lands of the State of New Mexico where Federal, State and fee lands are involved, and it is believed that in the event oil or gas in paying quantities is discovered on the land within the unit area, that the field or area can be developed more economically and efficiently under the terms of said agreement and that the same will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said field, and that the State of New Mexico will receive its fair share of the recoverable oil or gas in place under the land in the unit area, and that said agreement is in all respects for the best interest of the State of New Mexico.

5. That upon an order being entered by the New Mexico

Oil Conservation Commission approving said Unit Agreement and after approval thereof by the Commissioner of Public Lands of the State of New Mexico and the Director of the United States Geological Survey, an approved copy thereof will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner on the matter of the approval of said unit agreement, and upon hearing, said unit agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and the prevention of waste.

DATED this the 22nd day of November, 1960.

Respectfully submitted,

HONOLULU OIL CORPORATION

By 

E. B. Christy IV  
for Hervey, Dow & Hinkle  
P. O. Box 547  
Roswell, New Mexico  
Attorneys for Applicant

RECEIVED  
OCT 15 PM 1:54  
BEFORE THE OIL CONSERVATION COMMISSION  
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF  
McKITTRICK CANYON UNIT AGREEMENT  
EDDY COUNTY, NEW MEXICO

New Mexico Oil Conservation Commission  
Santa Fe, New Mexico

Case 2141  
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4. That said Unit Agreement is in substantially the same form as unit agreements heretofore approved by the Commissioner of Public Lands of the State of New Mexico where Federal, State and fee lands are involved, and it is believed that in the event oil or gas in paying quantities is discovered on the land within the unit area, that the field or area can be developed more economically and efficiently under the terms of said agreement and that the same will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said field, and that the State of New Mexico will receive its fair share of the recoverable oil or gas in place under the land in the unit area, and that said agreement is in all respects for the best interest of the State of New Mexico.

5. That upon an order being entered by the New Mexico

Oil Conservation Commission approving said Unit Agreement and after approval thereof by the Commissioner of Public Lands of the State of New Mexico and the Director of the United States Geological Survey, an approved copy thereof will be filed with the New Mexico Oil Conservation Commission.

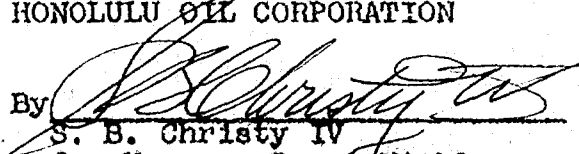
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DATED this the 22nd day of November, 1960.

Respectfully submitted,

HONOLULU OIL CORPORATION

By

  
S. B. Christy IV  
for Hervey, Dow & Hinkle  
P. O. Box 547  
Roswell, New Mexico  
Attorneys for Applicant

J. M. HERVEY 1874-1953  
HIRAM M. DOW  
CLARENCE E. HINKLE  
W. E. BONOURANT, JR.  
GEORGE H. HUNKER, JR.  
HOWARD C. BRATTON  
S. B. CHRISTY IV  
LEWIS C. COX, JR.  
PAUL W. EATON, JR.  
CONRAD E. COFFIELD

LAW OFFICES  
HERVEY, DOW & HINKLE

HINKLE BUILDING

ROSWELL, NEW MEXICO

February 8, 1961

TELEPHONE MAIN 2-6510  
Post Office Box 547

New Mexico Oil Conservation Commission  
Box 871  
Santa Fe, New Mexico

Re: Case No. 2141  
Order R-1838  
McKittrick Canyon Unit,  
Eddy County, New Mexico  
Our 141-33

Gentlemen:

At the hearing in the above case we left with the Examiner a fully executed counterpart of the above Unit Agreement. Please be advised that on December 27, 1960, the Commissioner of Public Lands of the State of New Mexico entered his Certificate of Approval of the Unit Agreement, and a copy of such Certificate is enclosed herewith. Please be further advised that on January 27, 1961, the Acting Director of the Geological Survey of the Department of Interior, under Contract 14-08-0001-7323, entered his Certification--Determination, which likewise approved such Unit Agreement; a copy of such Certification--Determination is likewise enclosed herewith.

Therefore, and pursuant to paragraph 20 of the Unit Agreement, the same is effective as of January 27, 1961.

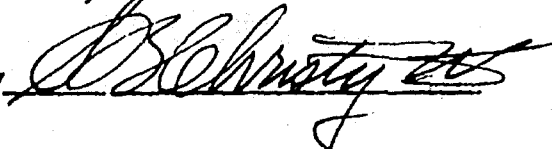
To further complete your files we are enclosing one copy of ratification instruments by C. M. McElhannon, Reine McElhannon, Gertrude Bennett, Mae Smith, Rose Salzman and Albert Salzman. This enclosure now completes the obtaining of signatures to the Unit of 100% commitment by the working interest owners, royalty owners and overriding royalty owners, except Tract 20, owned by Skelly Oil Company; Skelly has refused to join the Unit.

If anything further is desired in connection with the matter we will attempt to obtain it promptly upon your request.

Respectfully,

HERVEY, DOW & HINKLE

By



SBC:mke  
Encls.  
cc: Honolulu Oil Corp.  
Box 1391  
Midland, Texas

3

CERTIFICATE OF APPROVAL  
BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

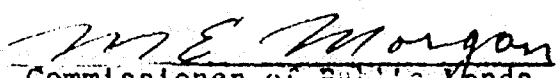
**METTERICK CANYON SALT AREA**

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated October 1, 1949, which has been executed or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, 7-11-48, New Mexico Statutes Annotated 1953 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said Agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 27th day of December 1949.

  
Commissioner of Public Lands  
of the State of New Mexico

RATIFICATION AND JOINDER  
of  
UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION  
of the  
McKITTRICK CANYON UNIT AREA  
EDDY COUNTY, NEW MEXICO

In consideration of the execution of the UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE MCKITTRICK CANYON UNIT AREA, COUNTY OF EDDY, STATE OF NEW MEXICO, by the working interest owners named therein (a copy of which has been delivered to the undersigned), in form approved on behalf of the Secretary of the Interior, the undersigned owner or owners of lands or leases, or interests therein or royalties presently held or which may arise under existing option agreements, or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, join, approve, ratify and adopt the terms and provisions of said Unit Agreement to the same extent as if he had signed the original agreement and any modifications thereof approved by the Secretary of the Interior or his duly authorized representative as applicable to said several lands and interest, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the term of said Unit Agreement, agree that the drilling, development and producing requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests do or shall apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

This Ratification and Joinder of Unit Agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall become effective and be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands affected hereby upon the approval of said Unit Agreement by the Secretary of the Interior, or his duly authorized representative, or otherwise as provided in the Unit Agreement for subsequent joinder, and when so executed shall be binding upon the undersigned, his heirs, devisees, assigns or successors in interest.

Date: 12-20-61

C. M. McElhannon  
C. M. McElhannon  
Reine McElhannon  
Gertrude Bennett  
Gertrude Bennett  
Mae Smith  
Mae Smith  
Rose Salzman  
Rose Salzman  
Albert Salzman  
Albert Salzman



STATE OF TEXAS )  
COUNTY OF TARRANT )

SS.

On this 20th day of December, 1960, before me personally appeared C. M. McElhannon & Reine McElhannon, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that ~~he~~<sup>they</sup> executed the same as ~~his~~<sup>their</sup> free act and deed.

Given under my hand and seal of office this 20th day of December, 1960.

Jacqueline R. Leggett  
Notary Public in and for said  
County and State

My commission expires: June 1, 1961.

STATE OF TEXAS )  
COUNTY OF HARRIS )

SS.

On this 21st day of January, 1961, before me personally appeared Albert Salzman and Rose Salzman, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that ~~he~~<sup>they</sup> executed the same as ~~his~~<sup>their</sup> free act and deed.

1961  
1960 Given under my hand and seal of office this 21st day of January,

Wm M Nathan  
Notary Public in and for said  
County and State

My commission expires: June 1, 1961

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

SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 1960, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is the \_\_\_\_\_ President of \_\_\_\_\_, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said \_\_\_\_\_ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1960.

\_\_\_\_\_  
Notary Public in and for said  
County and State

My commission expires:

STATE OF TEXAS )  
COUNTY OF TARRANT HARRIS ) ss.

On this 19th day of January 1961, ~~1960~~, before me personally appeared Gertrude Bennett, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that she executed the same as ~~his~~ free act and deed.  
her

Given under my hand and seal of office this 19th day of January, ~~1919~~ 61.  
1960.

*Wm. M. Nathan*

Notary Public in and for said  
County and State

My commission expires: June 1 1961

STATE OF TEXAS )  
COUNTY OF TARRANT HARRIS ) ss.

On this 19th day of January 1961, ~~1960~~, before me personally appeared Mae Smith, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that she executed the same as ~~his~~ free act and deed.  
her

Given under my hand and seal of office this 19th day of January 1961,  
1960.

*Wm. M. Nathan*

Notary Public in and for said  
County and State

My commission expires: June 1 1961

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss.

On this \_\_\_\_\_ day of \_\_\_\_\_, 1960, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is the \_\_\_\_\_ President of \_\_\_\_\_, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said \_\_\_\_\_ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_,  
1960.

\_\_\_\_\_  
Notary Public in and for said  
County and State

My commission expires:

RATIFICATION AND JOINDER  
of  
UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION  
of the  
McKITTRICK CANYON UNIT AREA  
EDDY COUNTY, NEW MEXICO

In consideration of the execution of the UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE MCKITTRICK CANYON UNIT AREA, COUNTY OF EDDY, STATE OF NEW MEXICO, by the working interest owners named therein (a copy of which has been delivered to the undersigned), in form approved on behalf of the Secretary of the Interior, the undersigned owner or owners of lands or leases, or interests therein or royalties presently held or which may arise under existing option agreements, or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, join, approve, ratify and adopt the terms and provisions of said Unit Agreement to the same extent as if he had signed the original agreement and any modifications thereof approved by the Secretary of the Interior or his duly authorized representative as applicable to said several lands and interest, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the term of said Unit Agreement, agree that the drilling, development and producing requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests do or shall apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

This Ratification and Joinder of Unit Agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall become effective and be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands affected hereby upon the approval of said Unit Agreement by the Secretary of the Interior, or his duly authorized representative, or otherwise as provided in the Unit Agreement for subsequent joinder, and when so executed shall be binding upon the undersigned, his heirs, devisees, assigns or successors in interest.

Date: January 3, 1961

Johnney Cockburn  
Thelma Cockburn

INDIVIDUAL ACKNOWLEDGMENT

STATE OF ~~NEW MEXICO~~, TEXAS }  
County of ECTOR } ss.

The foregoing instrument was acknowledged before me this 3rd day of January, 19 61 by Johnney Cockburn and Thelma Cockburn

My commission expires June 1, 19 61

Joe E. Johnston  
Notary Public JOE. E. JOHNSTON

RECEIVED  
NOV 23 PM 1 51

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
McKITTRICK CANYON UNIT AREA  
EDDY COUNTY, NEW MEXICO

No. 2141

THIS AGREEMENT, entered into as of the 1st day of October, 1960, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto",

WITNESSETH:

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

WHEREAS, the 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 under a cooperative or unit plan of development or operation or 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 (Chap. 88, Laws 1943) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chapter 72, Laws of 1935, as amended by Chap. 193, Laws of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949) to approve this agreement, and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the McKittrick Canyon Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions, and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the

below-defined unit area, and agree severally among themselves as follows:

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

2. UNIT AREA. The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the unit area, containing 6708.20 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the unit area, 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, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or Commissioner of Public Lands, hereinafter referred to as "Commissioner" and not less than six copies of the revised exhibits shall be filed with the Supervisor, and at least one copy shall be filed with the Commissioner and one copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "Commission".

The above-described unit area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

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

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

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

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

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government Survey or its nearest lot or tract equivalent in instances of irregular surveys; however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within 5 years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well, except that the

time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 10 years after said first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "unavoidable delay" time shall be made by Unit Operator and subject to approval of the Director and Commissioner. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this Subsection 2 (e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty interests of the United States), on a total nonparticipating-acreage basis, respectively, with approval of the Director and Commissioner, provided such extension application is submitted to the Director and the Commissioner not later than 60 days prior to the expiration of said 10-year period.

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

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

4. UNIT OPERATOR: HONOLULU OIL CORPORATION, a Delaware corporation with offices at Midland, Texas, is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of

interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six months after notice of intention to resign has been served by Unit Operator on all working interest owners, the Director and the Commissioner and the Commission, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal Lands and the Commission as to State and privately owned lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Director and the Commissioner.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other



interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator; Provided, That, if a majority but less than 75% of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Director and the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and the Commissioner at their election may declare this Unit Agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective

proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between the unit agreement and the unit operating agreement, this Unit Agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor, and one true copy with the Commissioner, prior to approval of this agreement by the Director.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY: Within 6 months after the effective date hereof, Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal Land, or by the Commissioner if on State Land, or by the Commission if on privately owned land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Devonian formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit), or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if on Federal Land, the

Commissioner if on State Land, or the Commission if on privately owned land, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 12,000 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 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 on Federal Land, the Commissioner if on State Land, or the Commission if on privately owned 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. If unitized substances in paying quantities shall have been discovered in any test well completed or in the process of completion upon the unit area prior to the effective date hereof, such well shall comply with the provisions of this Section and all further development operations shall be conducted in accordance with an approved plan of development and operation in accordance with Section 10 hereof. 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 the 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 comply with the drilling provisions of this section, the Director and the Commissioner may, after reasonable notice to the Unit Operator, and each working interest owner, lessee, and lessor at their last known addresses, 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 Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Commissioner, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor and the Commissioner, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling

necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor and the Commissioner may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and location of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor and the Commissioner. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and the Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor and the Commissioner, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor or the Commissioner, the Unit Operator shall submit for approval by the Director and the Commissioner, a schedule, based on subdivisions of the public land survey or aliquot parts thereof, as to Federal lands, and, as to non-Federal lands, based upon appropriate computations from the courses and distances shown on the last approved public land survey as of the effective date of the initial participating area, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director and the Commissioner to constitute a participating area, effective as of the date of completion of such well or the effective date of the unit agreement, whichever is later. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area

becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director and the Commissioner. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director and the Commissioner. No land shall be excluded from a participating area on account of depletion of the unitized substances.

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

In the absence of agreement at any time between the Unit Operator and the Director and the Commissioner as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the United States and the State of New Mexico, which shall be determined by the Supervisor for Federal lands, the Commissioner as to State lands, and the Commission as to privately owned lands, respectively, and the amount thereof deposited, as directed by the Supervisor and the Commissioner, respectively, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor, as to wells on Federal land, and the Commissioner as to wells on State land, and the Commission as to wells on privately owned land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION: All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor and the Commissioner, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating

area from which initially produced as constituted at the time of such final production.

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

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

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

14. ROYALTY SETTLEMENT: The United States and the State of New Mexico and all royalty owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interests not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws, and regulations, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained

shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Supervisor, the Commissioner, and the Commission, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area, and with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by the Supervisor, the Commissioner, and the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

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



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

With respect to any committed lease on privately owned land containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included in a participating area.

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

17. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement or pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the Supervisor for Federal lands or as approved by the Commissioner for State lands.

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

(a) The development and operation of lands subject to this agreement under the

terms hereof shall be ...  
operation with respect to each and every part or separately owned tract ...  
this agreement, regardless of whether there is any development of any particular part  
or tract of the unit area, notwithstanding anything to the contrary in any lease,  
operating agreement or other contract by and between the parties hereto, or their  
respective predecessors in interest, or any of them.

(b) Drilling and producing operations performed hereunder upon any tract of  
unitized lands will be accepted and deemed to be performed upon and for the benefit of  
each and every tract of unitized land, and no lease shall be deemed to expire by reason  
of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant  
to direction or consent of the Secretary and the Commissioner or their duly authorized  
representatives shall be deemed to constitute such suspension pursuant to such direction  
or consent as to each and every tract of unitized land.

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof  
or any part of such lease which is made subject to this agreement shall continue in force  
beyond the term provided therein until the termination hereof. Any other Federal lease  
committed hereto shall continue in force beyond the term so provided therein or by law  
as to the land committed so long as such lease remains subject hereto, provided that  
production is had in paying quantities under this unit agreement prior to the expiration  
date of the term of such lease or in the event actual drilling operations are commenced  
upon unitized land, in accordance with the provisions of this agreement, prior to the  
end of the primary term of such lease and are being diligently prosecuted at that time,  
such lease shall be extended for two (2) years and so long thereafter as oil or gas is  
produced in paying quantities in accordance with the provisions of the Mineral Leasing  
Act Revision of 1960.

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

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(j) of the Act, as amended by the Act of September 2, 1960 (74 Stat. 761, 734);

"Any [federal] lease heretofore or hereafter committed to any such unit plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the 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, sublease or contract 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, other than a Federal lease, 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 leases shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, that the provisions hereof shall apply only to the lands committed to this agreement. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts. 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 and gas, or either of them, are 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 or applicable shut-in gas royalty is paid in accordance with the terms of 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 and gas, or either of them, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil and gas, or either of them, in paying quantities are being produced from any portion of said lands.

19. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto

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

20. EFFECTIVE DATE AND TERM: This Agreement shall become effective upon approval by the Director, and the Commissioner, or their duly authorized representatives, as of the date of approval by the Director, and shall terminate five (5) years from said effective date, unless:

- (a) Such date of expiration is extended by the Director and the Commissioner; or
- (b) It is reasonably determined prior to the expiration of the fixed term or any extensions thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Director and the Commissioner; or
- (c) A valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in paying quantities, i.e., in this particular instance in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances can be produced as aforesaid; or
- (d) It is terminated as heretofore provided in this agreement.

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

21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION: The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being

hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law. It is agreed, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

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

22. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the working interest owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provision thereof to the extent that the said Unit Operator, working interest owners or any of them are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained.

23. APPEARANCES: Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior, the Commissioner of Public Lands and the New Mexico Oil Conservation Commission, and to appeal from orders issued under the regulations of said Department, the said Commission or the said Commissioner, or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, the said Commissioner or the said Commission, or any other legally constituted authority; provided, however, that any

other interested party shall also have the right at his own expense to be heard in any such proceeding.

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

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

26. UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to the matters herein enumerated or not.

27. FAIR EMPLOYMENT: In connection with the performance of work under this agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff, or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this

nondiscrimination clause.

The Unit Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

28. LOSS OF TITLE: In the event title to any interest in any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such interest in such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of funds due the United States or the State of New Mexico shall be withheld, but such funds of the United States shall be deposited as directed by the Supervisor, and such funds of the State shall be deposited as directed by the Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

29. NON-JOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director, the Commissioner and the Unit Operator prior to the approval of this agreement by the Director. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest.

Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as effectively committed to this unit agreement. Except as may otherwise herein be provided subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor, the Commissioner and the Commission of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Director, the Commissioner or the Commission.

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

31. SURRENDER: Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party in any lease, sub-lease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement; provided, however, that no land included in this unit which is embraced in a State of New Mexico lease shall be surrendered to the State so long as this agreement is in effect.

If as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party shall forfeit such rights and no further benefits from operation hereunder as to said land shall accrue to such party, unless within ninety (90) days thereafter said party shall execute this agreement and the unit operating agreement as to the working interest acquired through such surrender, effective as though such land had remained continuously subject to this agreement and the unit operating agreement. And in the event such agreements are not so executed, the party next in the chain of



title shall be and become the owner of such working interest at the end of such ninety (90) day period, with the same force and effect as though such working interest had been surrendered to such party.

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

- (1) Execute this agreement and the unit operating agreement as a working interest owner, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.
- (2) Again lease such lands but only under the condition that the holder of such lease shall within thirty (30) days after such lands are so leased execute this agreement and the unit operating agreement as to each participating area theretofore established hereunder, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.
- (3) Operate or provide for the operation of such land independently of this agreement as to any part thereof or any oil or gas deposits therein not then included within a participating area.

If the fee owner of the unitized substances does not execute this agreement and the unit operating agreement as a working interest owner or again lease such lands as above provided with respect to each existing participating area, within six (6) months after any such surrender or forfeiture, such fee owner shall be deemed to have waived the right to execute the unit operating agreement or lease such lands as to each such participating area, and to have agreed, in consideration for the compensation herein-after provided, that operations hereunder as to any such participating area or areas shall not be affected by such surrender.

For any period the working interest in any lands are not expressly committed to the unit operating agreement as the result of any such surrender or forfeiture, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective participating working interest ownership in any such participating area or areas, and such owners of working interests shall compensate the fee owner of unitized substances in such lands

by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized, as to such participating area or areas.

Upon commitment of a working interest to this agreement and the unit operating agreement as provided in this section, an appropriate accounting and settlement shall be made, to reflect the retroactive effect of the commitment, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered working interest during the period between the date of surrender and the date of recommitment, and payment of any moneys found to be owing by such an accounting shall be made as between the parties then signatory to the unit operating agreement and this agreement within thirty (30) days after the recommitment. The right to become a party to this agreement and the unit operating agreement as a working interest owner by reason of a surrender or forfeiture as provided in this section shall not be defeated by the nonexistence of a unit operating agreement and in the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

Nothing in this section shall be deemed to limit the right of joinder or subsequent joinder to this agreement as provided elsewhere in this agreement. The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

Date: \_\_\_\_\_

HONOLULU OIL CORPORATION

By \_\_\_\_\_

President

ATTEST:

Secretary

Address: P.O. Drawer 1391  
Midland, Texas

UNIT OPERATOR AND WORKING INTEREST  
OWNER

Date: \_\_\_\_\_

\_\_\_\_\_ Olen F. Featherstone

ATTEST:

FEATHERSTONE CORPORATION

By \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

GULF OIL CORPORATION

By \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_ Ernest Hanson

ATTEST:

LEONARD OIL COMPANY

By \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

PHILLIPS PETROLEUM COMPANY

By \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

SKELLY OIL COMPANY

By \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_

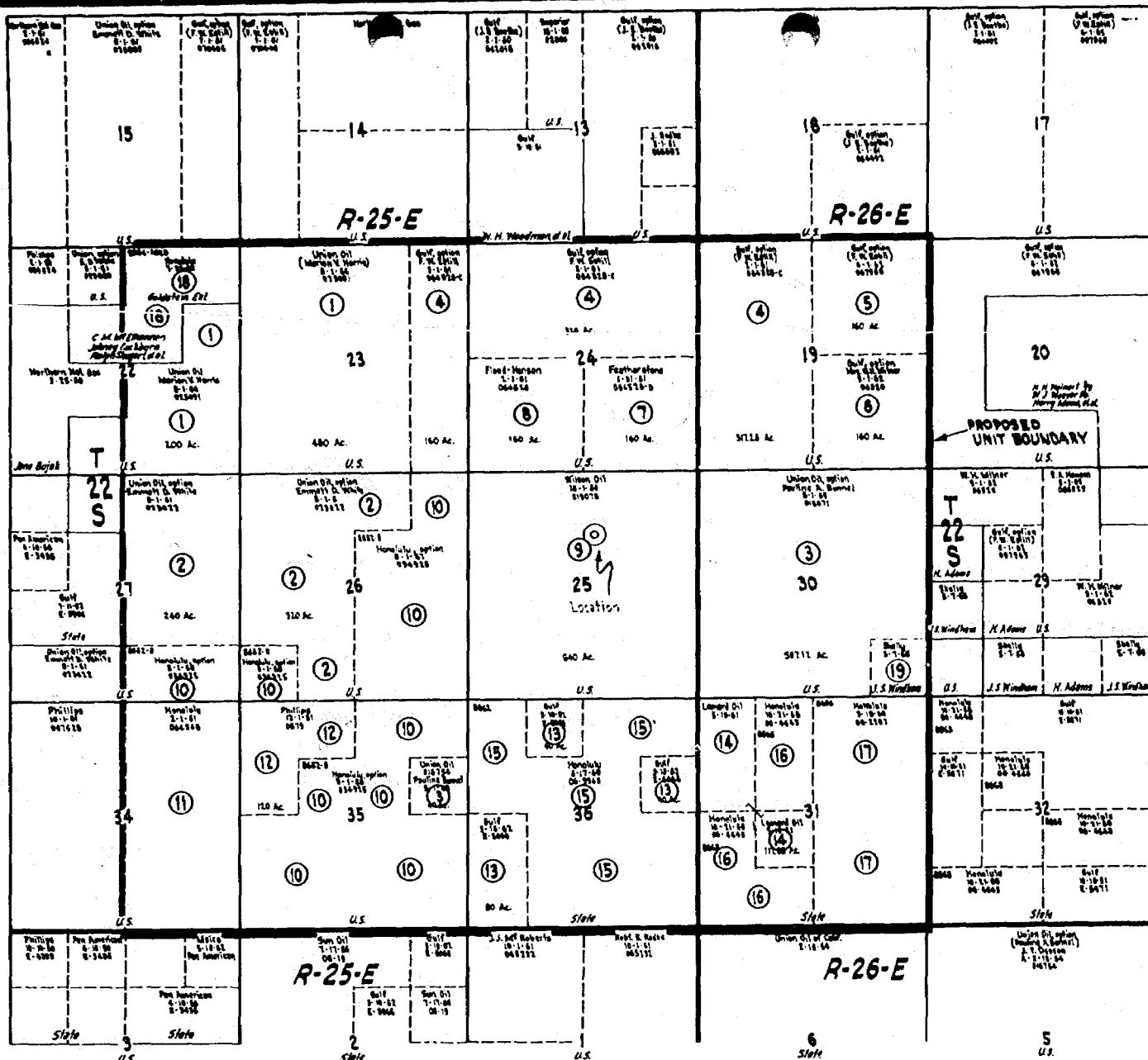
Date: \_\_\_\_\_

ATTEST:

WILSON OIL COMPANY

By \_\_\_\_\_

Date: \_\_\_\_\_



FEDERAL LANDS			
TRACT	SERIAL NO.	WORKING INTEREST OWNER	ACRES IN UNIT
1.	N. M. 023091	Union Oil Co. of California	680.00
2.	N. M. 023022	Union Oil Co. of California	560.00
3.	N. M. 016754	Union Oil Co. of California	637.12
4.	L. C. 064528-C	F. W. Estill (Optioned to Gulf Oil Corporation)	797.28
5.	L. C. 067965	F. W. Estill (Optioned to Gulf Oil Corporation)	160.00
6.	N. M. 06320	Mrs. W. H. Miller (Optioned to Gulf Oil Corporation)	160.00
7.	L. C. 064528-D	Olen F. Featherstone	160.00
8.	L. C. 064528	Ernest A. Hanson	160.00
9.	N. M. 015078	Wilson Oil Company	640.00
10.	N. M. 034925	Fred M. Cassidy (Optioned to Honolulu Oil Corporation)	880.00
11.	L. C. 064548	Honolulu Oil Corporation	320.00
12.	N. M. 0879	Mrs. Zela D. McBride (Optioned to Phillips Petroleum Company)	120.00
Total Federal			5,274.40
STATE LANDS			
TRACT	LEASE NO.	WORKING INTEREST OWNER	ACRES IN UNIT
13.	E-6066	Gulf Oil Corporation	160.00
14.	E-5225	Leonard Oil Company	117.85
15.	OG-3943	Honolulu Oil Corporation	480.00
16.	OG-4643	Honolulu Oil Corporation	195.95
17.	OG-2287	Honolulu Oil Corporation	320.00
Total State			1,273.80
FEE LANDS			
TRACT	LEASE NAME	WORKING INTEREST OWNER	ACRES IN UNIT
18.	Ralph A. Shugart et al	Honolulu Oil Corporation	120.00
19.	J.S. Windham	Skelly Oil Company	40.00
Total Fee			160.00
TOTAL ACREAGE IN UNIT AREA			6,708.20

# EXHIBIT A

## McKITTRICK CANYON UNIT AREA T-22-S - R-25 & 26-E EDDY COUNTY, NEW MEXICO

### SCALE



to be revised  
to Tr. 7



EXHIBIT "B"  
McKINSTRICK CANYON UNIT  
EDDY COUNTY, NEW MEXICO

<u>Tract No.</u>	<u>Description of Land</u>	<u>No. of Acres</u>	<u>Serial No. &amp; Effective Date of Lease</u>	<u>Basic Royalty &amp; Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty &amp; Percentage</u>	<u>Committed Working Interest &amp; Percentage</u>
<u>FEDERAL LANDS:</u>							
1.	Township 22 South, Range 25 East Section 22: SE $\frac{1}{4}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ Section 23: W $\frac{1}{2}$ , W $\frac{1}{2}$ E $\frac{1}{2}$	680.00	NM 023091 August 1, 1956	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	Marion V. Harris & Lawrence C. Harris, Box 6657, Roswell, N.M. - \$500.00 per acre to be paid out of 3%.	Union - 100%
2.	Township 22 South, Range 25 East Section 26: NW $\frac{1}{4}$ , NW $\frac{1}{4}$ NE $\frac{1}{4}$ , NE $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 27: NE $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$	560.00	NM 023022 August 1, 1956	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	Emmett D. White & wife Union - 100% Blanche V. White, Box 146, Roswell, N.M. - \$750.00 per acre out of 3%.	Union - 100%
3.	Township 22 South, Range 26 East Section 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ , W $\frac{1}{2}$ E $\frac{1}{2}$ , E $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$ Township 22 South, Range 25 East Section 35: SE $\frac{1}{4}$ NE $\frac{1}{4}$	637.12	NM 016754 May 1, 1955	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	T. J. Deason, Jr. & wife, June C. Deason, 1804 W. 4th St., Roswell, N.M. \$500.00 per acre out of 3%.	Union - 100%
4.	Township 22 South, Range 25 East Section 23: E $\frac{1}{2}$ E $\frac{1}{2}$ Section 24: W $\frac{1}{2}$ Township 22 South, Range 26 East Section 19: Lots 1, 2, 3, 4 E $\frac{1}{2}$ W $\frac{1}{2}$	797.28	LC 0645284C February 1, 1951	USA - 12 $\frac{1}{2}$ %	F.W. Estill, Box 1023, Kermit, Texas (Optioned to Gulf Oil Corp.)	Roy L. Flood & wife, F.W. Estill - 100% Dixie D. Flood, 712 N. Main St., Roswell, N.M. \$750.00 per acre out of 3%.	F.W. Estill - 100%
5.	Township 22 South, Range 26 East Section 19: NE $\frac{1}{4}$	160.00	LC 067965 April 1, 1952	USA - 12 $\frac{1}{2}$ %	F.W. Estill, Box 1023, Kermit, Texas (Optioned to Gulf Oil Corp.)	Mrs. Mary Didlake & husband, Tom Didlake, Rt. 2, Box 79-A, Roswell, N.M. - \$500.00 per acre out of 3%	F.W. Estill - 100%

Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
5.	Township 22 South, Range 26 East Section 19: SE $\frac{1}{4}$	160.00	NM 06320 September 1, 1952	USA - 12 $\frac{1}{2}$ %	Mrs. W.H. Milner, 609 S. Lea, Roswell, N.M. (Optioned to Gulf Oil Corp.)	Mrs. W.H. Milner & husband, W.H. Milner, 609 S. Lea, Roswell, N.M. \$750.00 per acre out of 3%.	Mrs. W.H. Milner - 100%
7.	Township 22 South, Range 25 East Section 24: N $\frac{1}{2}$ SE $\frac{1}{4}$	80.00	LC 064528-D February 1, 1951	USA - 12 $\frac{1}{2}$ %	Olen F. Featherstone Roswell Pet. Bldg. Roswell, N.M.	Roy L. Flood, 611 S. Olen F. Featherstone - 100% Missouri, Roswell, N.M. - $\frac{1}{2}$ of 1% ORR	
8.	Township 22 South, Range 25 East Section 24: SW $\frac{1}{4}$	160.00	LC 064528 February 1, 1951	USA - 12 $\frac{1}{2}$ %	Ernest Hanson	Roy L. Flood, 611 S. Ernest Hanson - Missouri, Roswell, N.M. - $\frac{1}{2}$ of 1% ORR	100%
9.	Township 22 South, Range 25 East Section 25: All	640.00	NM 015078 October 1, 1954	USA - 12 $\frac{1}{2}$ %	Wilson Oil Company, Box 627, Santa Fe, N.M.	None	Wilson Oil Co. - 100%
10.	Township 22 South, Range 25 East Section 26: SE $\frac{1}{4}$ , E $\frac{1}{2}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ SW $\frac{1}{4}$ Section 27: S $\frac{1}{2}$ SE $\frac{1}{4}$ Section 35: N $\frac{1}{2}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NW $\frac{1}{4}$ , S $\frac{1}{2}$	880.00	NM 034925 August 1, 1958	USA - 12 $\frac{1}{2}$ %	Fred M. Cassidy (Optioned to Hono- lulu Oil Corp.)	Irma M. Hanson & husband, L.A. Hanson, 512 Garst St., Artesia, N.M. - 3%; Fred M. Cassidy - $\frac{1}{2}$ of 1%	Fred M. Cassidy - 100%
11.	Township 22 South, Range 25 East Section 34: E $\frac{1}{2}$	320.00	LC 064548 February 1, 1951	USA - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	Grady Southworth & wife, Ethel Marie Southworth, 108 W. Albuquerque, Roswell, N.M. - 3%.	Honolulu-100%
12.	Township 22 South, Range 25 East Section 35: N $\frac{1}{2}$ NW $\frac{1}{4}$ , SW $\frac{1}{4}$ NW $\frac{1}{4}$	120.00	NM 0879 December 1, 1951	USA - 12 $\frac{1}{2}$ %	Mrs. Zela D. McBride (Optioned to Phillips Petroleum Co.)	Zela D. Wood (former- Mrs. Zela D. Wood by Zela D. McBride) (formerly 220 S. Eudora, Denver, McBride) - 100% Colo. $\frac{1}{2}$ %; Eleanor L. Rettig, Box 1597, Midland, Texas - 1 $\frac{1}{2}$ %; Ora R. Hall, Jr., Box 1681, Santa Fe, N.M. - 1 $\frac{1}{2}$ %.	

Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
13.	Township 22 South, Range 25 East Section 24: S $\frac{1}{2}$ SE $\frac{1}{4}$	80.00	LC 064528-E February 1, 1951	USA - 12 $\frac{1}{2}$ %	Featherstone Corp. Roswell Pet. Bldg. Roswell, N.M.	Roy L. Flood, 611 S. Missouri, Roswell, N.M. - $\frac{1}{2}$ of 1% ORR	Featherstone Corp. - 100%
TOTAL 13 FEDERAL TRACTS		5,274.40 Acres					

STATE LANDS:

14.	Township 22 South, Range 25 East Section 36: SE $\frac{1}{4}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ NW $\frac{1}{4}$ , W $\frac{1}{2}$ SW $\frac{1}{4}$	160.00	E-6066 March 10, 1952	State of N.M. - 12 $\frac{1}{2}$ %	Gulf Oil Corporation	None	Gulf Oil Corporation - 100%
15.	Township 22 South, Range 26 East Section 31: Lots 1 & 2 (W $\frac{1}{2}$ NW $\frac{1}{4}$ ) NE $\frac{1}{4}$ SW $\frac{1}{4}$	117.85	E-5225 May 10, 1951	State of N.M. - 12 $\frac{1}{2}$ %	Leonard Oil Co., Box 708, Roswell, N.M.	None	Leonard Oil Co. - 100%
16.	Township 22 South, Range 25 East Section 36: N $\frac{1}{2}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , S $\frac{1}{2}$ NW $\frac{1}{4}$ , NW $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$	480.00	OG-3943 June 17, 1958	State of N.M. - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	None	Honolulu - 100%
17.	Township 22 South, Range 26 East Section 31: Lots 3 & 4, E $\frac{1}{2}$ NW $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$	195.95	OG-4643 October 21, 1958	State of N.M. - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	None	Honolulu - 100%
18.	Township 22 South, Range 26 East Section 31: E $\frac{1}{2}$	320.00	OG-2287 March 18, 1958	State of N.M. - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	None	Honolulu - 100%
TOTAL 5 STATE TRACTS		1,273.80 Acres					

FEE LANDS:

19.	Undivided $\frac{1}{2}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 22, Township 22 South, Range 25 East	60.00 net	Ralph A. Shugart & wife, Rena Shugart, Artesia, N.M., lease dated 7-29-58, expires 7-29-68	Lessors - All	Honolulu Oil Corp.	None	Honolulu - 100%
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Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
18.	Undivided $\frac{1}{4}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Sec. 22, Township 22 South, Range 25 East	30.00	net Johney Cockburn & lessors - All wife, Thelma Cockburn, 711 Fair Bldg., Ft. Worth, Texas, lease dated 7-29-58, expires 7-29-68		Honolulu Oil Corp.	None	Honolulu - 100%
19.	Undivided $\frac{1}{8}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 22, Township 22 South, Range 25 East	15.00	net C.M. McElhannon & wife, Elaine McElhannon, Box 1657, Ft. Worth, Texas, Lease dated 7-29-58, expires 7-29-68	Lessors - All	Honolulu Oil Corp.	None	Honolulu - 100%
19.	Undivided $\frac{1}{8}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 22, Township 22 South, Range 25 East	15.00	net Gertrude Bennett & Mae Smith, Ft. Worth, Texas, & Rose Salzman & husband, Albert Salzman, Houston, Texas. Lease dated 7-29-58, expires 7-29-68	Lessors - All	Honolulu Oil Corp.	None	Honolulu - 100%
20.	SE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 30, Township 22 South, Range 26 East	40.00	J.S. Windham & wife, Alma Gray Windham, Carlsbad, New Mexico. Lease dated 5-7-58, expires 5-7-68.	Lessors - All	Skelly Oil Company	None	Skelly - 100%

Two Fee Tracts - 160 Acres

TOTAL 20 TRACTS IN ENTIRE UNIT AREA 6,708.20 Acres



OIL CONSERVATION COMMISSION  
*Honolulu* EXHIBIT NO. 1  
CASE NO. 2141

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
McKITTRICK CANYON UNIT AREA  
EDDY COUNTY, NEW MEXICO

No. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 1st day of October, 1960, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto",

WITNESSETH:

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

WHEREAS, the 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 under a cooperative or unit plan of development or operation on 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 (Chap. 88, Laws 1943) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chapter 72, Laws of 1935, as amended by Chap. 193, Laws of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949) to approve this agreement, and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the McKittrick Canyon Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions, and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the

below-defined unit area, and agree severally among themselves as follows:

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

2. UNIT AREA. The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the unit area, containing 6708.20 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the unit area, 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, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or Commissioner of Public Lands, hereinafter referred to as "Commissioner" and not less than six copies of the revised exhibits shall be filed with the Supervisor, and at least one copy shall be filed with the Commissioner and one copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "Commission".

The above-described unit area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

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

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

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

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

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government Survey or its nearest lot or tract equivalent in instances of irregular surveys; however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within 5 years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well, except that the

time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of Unit Operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 10 years after said first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "unavoidable delay" time shall be made by Unit Operator and subject to approval of the Director and Commissioner. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this Subsection 2 (e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty interests of the United States), on a total nonparticipating-acreage basis, respectively, with approval of the Director and Commissioner, provided such extension application is submitted to the Director and the Commissioner not later than 60 days prior to the expiration of said 10-year period.

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

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

4. UNIT OPERATOR: HONOLULU OIL CORPORATION, a Delaware corporation with offices at Midland, Texas, is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of

interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six months after notice of intention to resign has been served by Unit Operator on all working interest owners, the Director and the Commissioner and the Commission, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal Lands and the Commission as to State and privately owned lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Director and the Commissioner.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other

interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator; Provided, That, if a majority but less than 75% of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Director and the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and the Commissioner at their election may declare this Unit Agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective

proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between the unit agreement and the unit operating agreement, this Unit Agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor, and one true copy with the Commissioner, prior to approval of this agreement by the Director.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY: Within 6 months after the effective date hereof, Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal Land, or by the Commissioner if on State Land, or by the Commission if on privately owned land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Devonian formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit), or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if on Federal Land, the

Commissioner if on State Land, or the Commission if on privately owned land, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 12,000 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 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 on Federal Land, the Commissioner if on State Land, or the Commission if on privately owned 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. If unitized substances in paying quantities shall have been discovered in any test well completed or in the process of completion upon the unit area prior to the effective date hereof, such well shall comply with the provisions of this Section and all further development operations shall be conducted in accordance with an approved plan of development and operation in accordance with Section 10 hereof. 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 the 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 comply with the drilling provisions of this section, the Director and the Commissioner may, after reasonable notice to the Unit Operator, and each working interest owner, lessee, and lessor at their last known addresses, 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 Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Commissioner, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor and the Commissioner, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling



necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor and the Commissioner may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and location of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor and the Commissioner. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and the Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor and the Commissioner, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor or the Commissioner, the Unit Operator shall submit for approval by the Director and the Commissioner, a schedule, based on subdivisions of the public land survey or aliquot parts thereof, as to Federal lands, and, as to non-Federal lands, based upon appropriate computations from the courses and distances shown on the last approved public land survey as of the effective date of the initial participating area, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director and the Commissioner to constitute a participating area, effective as of the date of completion of such well or the effective date of the unit agreement, whichever is later. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area

becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director and the Commissioner. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director and the Commissioner. No land shall be excluded from a participating area on account of depletion of the unitized substances.

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

In the absence of agreement at any time between the Unit Operator and the Director and the Commissioner as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the United States and the State of New Mexico, which shall be determined by the Supervisor for Federal lands, the Commissioner as to State lands, and the Commission as to privately owned lands, respectively, and the amount thereof deposited, as directed by the Supervisor and the Commissioner, respectively, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor, as to wells on Federal land, and the Commissioner as to wells on State Land, and the Commission as to wells on privately owned land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION: All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor and the Commissioner, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating

area from which initially produced as constituted at the time of such final production.

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

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

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

14. ROYALTY SETTLEMENT: The United States and the State of New Mexico and all royalty owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interests not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws, and regulations, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained

shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Supervisor, the Commissioner, and the Commission, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area, and with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by the Supervisor, the Commissioner, and the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

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

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

With respect to any committed lease on privately owned land containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included in a participating area.

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

17. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement or pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the Supervisor for Federal lands or as approved by the Commissioner for State lands.

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

(a) The development and operation of lands subject to this agreement under the

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

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary and the Commissioner or their duly authorized representatives shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land.

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production is had in paying quantities under this unit agreement prior to the expiration date of the term of such lease or in the event actual drilling operations are commenced upon unitized land, in accordance with the provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two (2) years and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act Revision of 1960.

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

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(j) of the Act, as amended by the Act of September 2, 1960 (74 Stat. 781, 784);

"Any [federal] lease heretofore or hereafter committed to any such unit plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the 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, sublease or contract 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, other than a Federal lease, 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 leases shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, that the provisions hereof shall apply only to the lands committed to this agreement. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts. 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 and gas, or either of them, are 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 or applicable shut-in gas royalty is paid in accordance with the terms of 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 and gas, or either of them, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil and gas, or either of them, in paying quantities are being produced from any portion of said lands.

19. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto



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

20. EFFECTIVE DATE AND TERM: This Agreement shall become effective upon approval by the Director, and the Commissioner, or their duly authorized representatives, as of the date of approval by the Director, and shall terminate five (5) years from said effective date, unless:

- (a) Such date of expiration is extended by the Director and the Commissioner; or
- (b) It is reasonably determined prior to the expiration of the fixed term or any extensions thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Director and the Commissioner; or
- (c) A valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in paying quantities, i.e., in this particular instance in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances can be produced as aforesaid; or
- (d) It is terminated as heretofore provided in this agreement.

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

21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION: The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being

hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law. It is agreed, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

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

22. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the working interest owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provision thereof to the extent that the said Unit Operator, working interest owners or any of them are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained.

23. APPEARANCES: Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior, the Commissioner of Public Lands and the New Mexico Oil Conservation Commission, and to appeal from orders issued under the regulations of said Department, the said Commission or the said Commissioner, or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, the said Commissioner or the said Commission, or any other legally constituted authority; provided, however, that any

other interested party shall also have the right at his own expense to be heard in any such proceeding.

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

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

26. UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to the matters herein enumerated or not.

27. FAIR EMPLOYMENT: In connection with the performance of work under this agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this

nondiscrimination clause.

The Unit Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

28. LOSS OF TITLE: In the event title to any interest in any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such interest in such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of funds due the United States or the State of New Mexico shall be withheld, but such funds of the United States shall be deposited as directed by the Supervisor, and such funds of the State shall be deposited as directed by the Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

29. NON-JOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director, the Commissioner and the Unit Operator prior to the approval of this agreement by the Director. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest.

Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as effectively committed to this unit agreement. Except as may otherwise herein be provided subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor, the Commissioner and the Commission of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Director, the Commissioner or the Commission.

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

31. SURRENDER: Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party in any lease, sub-lease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement; provided, however, that no land included in this unit which is embraced in a State of New Mexico lease shall be surrendered to the State so long as this agreement is in effect.

If as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party shall forfeit such rights and no further benefits from operation hereunder as to said land shall accrue to such party, unless within ninety (90) days thereafter said party shall execute this agreement and the unit operating agreement as to the working interest acquired through such surrender, effective as though such land had remained continuously subject to this agreement and the unit operating agreement. And in the event such agreements are not so executed, the party next in the chain of

title shall be and become the owner of such working interest at the end of such ninety (90) day period, with the same force and effect as though such working interest had been surrendered to such party.

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

- (1) Execute this agreement and the unit operating agreement as a working interest owner, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.
- (2) Again lease such lands but only under the condition that the holder of such lease shall within thirty (30) days after such lands are so leased execute this agreement and the unit operating agreement as to each participating area theretofore established hereunder, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.
- (3) Operate or provide for the operation of such land independently of this agreement as to any part thereof or any oil or gas deposits therein not then included within a participating area.

If the fee owner of the unitized substances does not execute this agreement and the unit operating agreement as a working interest owner or again lease such lands as above provided with respect to each existing participating area, within six (6) months after any such surrender or forfeiture, such fee owner shall be deemed to have waived the right to execute the unit operating agreement or lease such lands as to each such participating area, and to have agreed, in consideration for the compensation herein-after provided, that operations hereunder as to any such participating area or areas shall not be affected by such surrender.

For any period the working interest in any lands are not expressly committed to the unit operating agreement as the result of any such surrender or forfeiture, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective participating working interest ownerships in any such participating area or areas, and such owners of working interests shall compensate the fee owner of unitized substances in such lands

by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized, as to such participating area or areas.

Upon commitment of a working interest to this agreement and the unit operating agreement as provided in this section, an appropriate accounting and settlement shall be made, to reflect the retroactive effect of the commitment, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered working interest during the period between the date of surrender and the date of recommitment, and payment of any moneys found to be owing by such an accounting shall be made as between the parties then signatory to the unit operating agreement and this agreement within thirty (30) days after the recommitment. The right to become a party to this agreement and the unit operating agreement as a working interest owner by reason of a surrender or forfeiture as provided in this section shall not be defeated by the nonexistence of a unit operating agreement and in the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

Nothing in this section shall be deemed to limit the right of joinder or subsequent joinder to this agreement as provided elsewhere in this agreement. The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

Date: \_\_\_\_\_

HONOLULU OIL CORPORATION

By \_\_\_\_\_  
President

ATTEST:

\_\_\_\_\_  
Secretary  
Address: P.O. Drawer 1391  
Midland, Texas

UNIT OPERATOR AND WORKING INTEREST  
OWNER

Date: \_\_\_\_\_

\_\_\_\_\_ Olen F. Featherstone

ATTEST:

FEATHERSTONE CORPORATION

By \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

GULF OIL CORPORATION

By \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_ Ernest Hanson

ATTEST:

LEONARD OIL COMPANY

By \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

PHILLIPS PETROLEUM COMPANY

By \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

SKELLY OIL COMPANY

By \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_

Date: \_\_\_\_\_

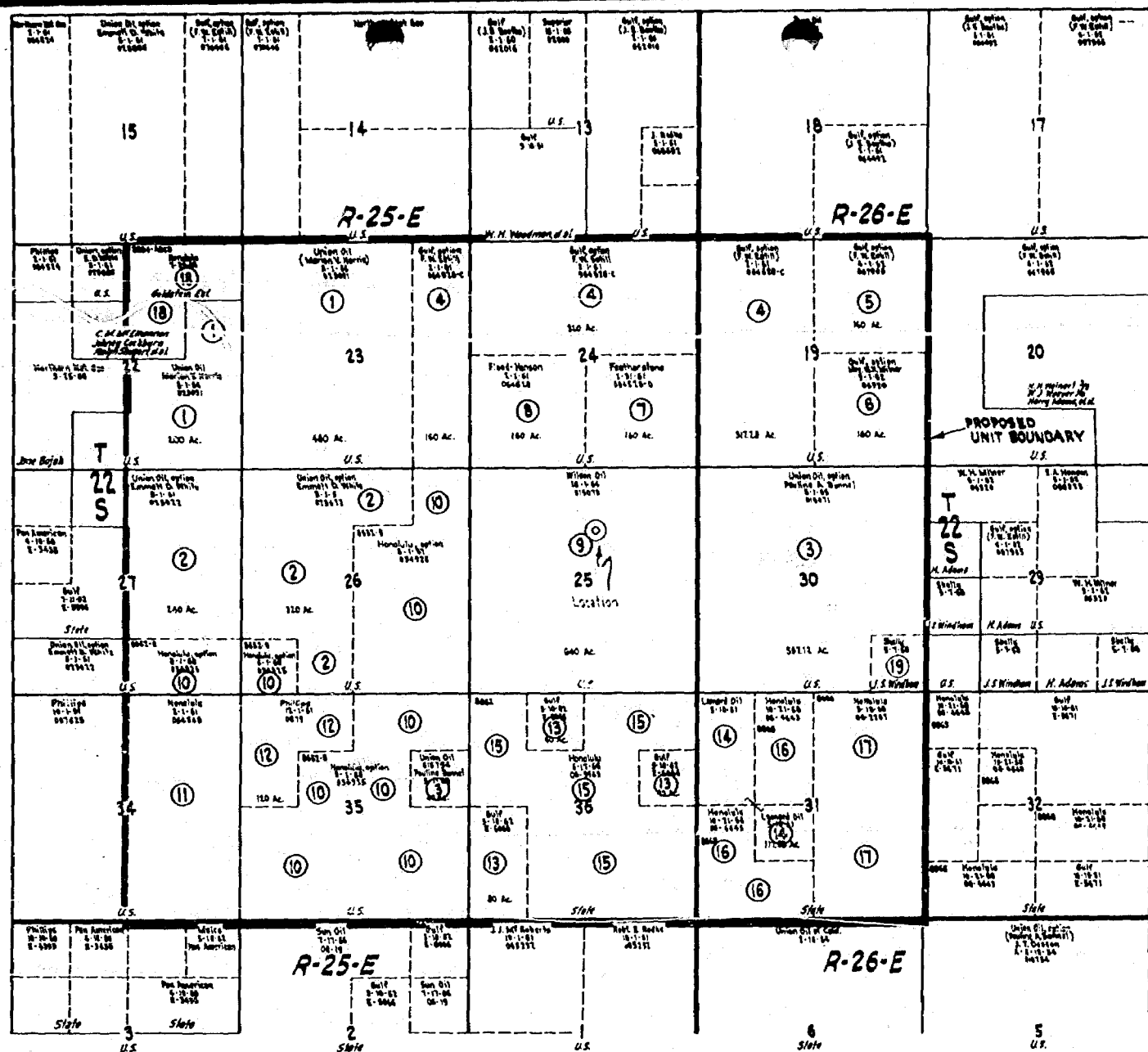
ATTEST:

WILSON OIL COMPANY

By \_\_\_\_\_

Date: \_\_\_\_\_





FEDERAL LANDS			
TRACT	SERIAL NO.	WORKING INTEREST OWNER	ACRES IN UNIT
1.	N. M. 023091	Union Oil Co. of California	680.00
2.	N. M. 023022	Union Oil Co. of California	560.00
3.	N. M. 016754	Union Oil Co. of California	637.12
4.	L. C. 064528-C	F. W. Estill (Optioned to Gulf Oil Corporation)	797.28
5.	L. C. 067965	F. W. Estill (Optioned to Gulf Oil Corporation)	160.00
6.	N. M. 06320	Mrs. W. H. Miller (Optioned to Gulf Oil Corporation)	160.00
7.	L. C. 064528-D	Olen F. Featherstone	160.00
8.	L. C. 064528	Ernest A. Hanson	160.00
9.	N. M. 015078	Wilson Oil Company	640.00
10.	N. M. 034925	Fred M. Cassidy (Optioned to Honolulu Oil Corporation)	880.00
11.	L. C. 064548	Honolulu Oil Corporation	320.00
12.	N. M. 0879	Mrs. Zela D. McBride (Optioned to Phillips Petroleum Company)	120.00

Total Federal 5,274.40

STATE LANDS			
TRACT	LEASE NO.	WORKING INTEREST OWNER	ACRES IN UNIT
13.	E-6066	Gulf Oil Corporation	160.00
14.	E-5225	Leonard Oil Company	117.85
15.	OG-3943	Honolulu Oil Corporation	480.00
16.	OG-4643	Honolulu Oil Corporation	195.95
17.	OG-2287	Honolulu Oil Corporation	320.00

Total State 1,273.80

FEE LANDS			
TRACT	LEASE NAME	WORKING INTEREST OWNER	ACRES IN UNIT
18.	Ralph A. Shugart et al	Honolulu Oil Corporation	120.00
19.	J. S. Windham	Skelly Oil Company	40.00
		Total Fee	160.00

TOTAL ACREAGE IN UNIT AREA 6,708.20

## EXHIBIT A

# McKITTRICK CANYON UNIT AREA T-22-S - R-25 & 26-E EDDY COUNTY, NEW MEXICO

SCALE



*to be revised as to Tr. 7*

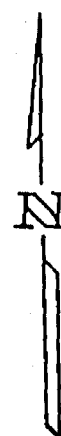


EXHIBIT "B"  
McKINSTRICK CANYON UNIT  
EDDY COUNTY, NEW MEXICO

Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
<u>FEDERAL LANDS</u>							
1. Township 22 South, Range 25 East Section 22: SE $\frac{1}{4}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ Section 23: W $\frac{1}{2}$ , W $\frac{1}{2}$ E $\frac{1}{2}$		680.00	NM 023091 August 1, 1956	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	Marion V. Harris & Lawrence C. Harris, Box 6657, Roswell, N.M. - \$500.00 per acre to be paid out of 3%.	Union - 100%
2. Township 22 South, Range 25 East Section 26: NW $\frac{1}{4}$ , NW $\frac{1}{4}$ NE $\frac{1}{4}$ , N $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 27: NE $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$		560.00	NM 023022 August 1, 1956	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	Emmett D. White & wife Union - 100% Blanche V. White, Box 146, Roswell, N.M. - \$750.00 per acre out of 3%.	Union - 100%
3. Township 22 South, Range 26 East Section 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ , W $\frac{1}{2}$ E $\frac{1}{2}$ , E $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$ Township 22 South, Range 25 East Section 35: SW $\frac{1}{4}$ NE $\frac{1}{4}$		637.12	NM 016754 May 1, 1955	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	T. J. Deason, Jr. & wife, June J. Deason, 1804 W. 4th St., Roswell, N.M. \$500.00 per acre out of 3%.	Union - 100%
4. Township 22 South, Range 25 East Section 23: E $\frac{1}{2}$ E $\frac{1}{2}$ Section 24: E $\frac{1}{2}$ Township 22 South, Range 26 East Section 19: Lots 1, 2, 3, 4 3 $\frac{1}{2}$ W $\frac{1}{2}$		797.28	LC-064528-6C February 1, 1951	USA - 12 $\frac{1}{2}$ %	F.W. Estill, Box 1023, Kermit, Texas (Optioned to Gulf Oil Corp.)	Roy L. Flood & wife, F.W. Estill - 100% Dixie D. Flood, 712 N. Main St., Roswell, N.M. \$750.00 per acre out of 3%.	F.W. Estill - 100%
5. Township 22 South, Range 26 East Section 19: NE $\frac{1}{4}$		160.00	LC 067965 April 1, 1952	USA - 12 $\frac{1}{2}$ %	F.W. Estill, Box 1023, Kermit, Texas (Optioned to Gulf Oil Corp.)	Mrs. Mary Didlake & F.W. Estill - 100% husband, Tom Didlake, Rt. 2, Box 79-A, Roswell, N.M. - \$500.00 per acre out of 3%	F.W. Estill - 100%

Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
6.	Township 22 South, Range 26 East Section 19: SE $\frac{1}{4}$	160.00	NM 06320 September 1, 1952	USA - 12 $\frac{1}{2}$ %	Mrs. W.H. Milner, 609 S.Iea, Roswell, N.M. (Optioned to Gulf Oil Corp.)	Mrs. W.H. Milner & husband, W.H. Milner, 609 S.Iea, Roswell, N.M. \$750.00 per acre out of 3%.	Mrs. W.H. Milner - 100%
7.	Township 22 South, Range 25 East Section 24: N $\frac{1}{2}$ SE $\frac{1}{4}$	80.00	LC 064528-D February 1, 1951	USA - 12 $\frac{1}{2}$ %	Olen F. Featherstone Roswell Pet. Bldg. Roswell, N.M.	Roy L. Flood, 611 S. Olen F. Featherstone - Missouri, Roswell, N.M. - $\frac{1}{2}$ of 1% ORR	stone - 100%
8.	Township 22 South, Range 25 East Section 24: SW $\frac{1}{4}$	160.00	LC 064528 February 1, 1951	USA - 12 $\frac{1}{2}$ %	Ernest Hanson	Roy L. Flood, 611 S. Ernest Hanson - Missouri, Roswell, N.M. - $\frac{1}{2}$ of 1% ORR	100%
9.	Township 22 South, Range 25 East Section 25: All	640.00	NM 015078 October 1, 1954	USA - 12 $\frac{1}{2}$ %	Wilson Oil Company, Box 627, Santa Fe, N.M.	None	Wilson Oil Co. - 100%
10.	Township 22 South, Range 25 East Section 26: SE $\frac{1}{4}$ , E $\frac{1}{2}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ SW $\frac{1}{4}$ Section 27: S $\frac{1}{2}$ SE $\frac{1}{4}$ Section 35: N $\frac{1}{2}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NW $\frac{1}{4}$ , S $\frac{1}{2}$	880.00	NM 034925 August 1, 1958	USA - 12 $\frac{1}{2}$ %	Fred M. Cassidy (Optioned to Honolulu Oil Corp.)	Irma M. Hanson & husband, I.A. Hanson, 512 Garst St., Artesia, N.M. - 3%; Fred M. Cassidy - $\frac{1}{2}$ of 1%	Fred M. Cassidy - 100%
11.	Township 22 South, Range 25 East Section 34: E $\frac{1}{2}$	320.00	LC 064548 February 1, 1951	USA - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	Grady Southworth & wife, Ethel Marie Southworth, 108 W. Albuquerque, Roswell, N.M. - 3%	Honolulu-100%
12.	Township 22 South, Range 25 East Section 35: N $\frac{1}{2}$ NW $\frac{1}{4}$ , SW $\frac{1}{4}$ NW $\frac{1}{4}$	120.00	NM 0879 December 1, 1951	USA - 12 $\frac{1}{2}$ %	Mrs. Zela D. McBride (Optioned to Phillips Petroleum Co.)	Zela D. Wood (former- Mrs. Zela D. Wood by Zela D. McBride) (formerly 220 S. Eudora, Denver, McBride) - 100%; Colo. $\frac{1}{2}$ ; Eleanor L. Bettig, Box 1597, Midland, Texas - 1 $\frac{1}{2}$ %; Ora R. Hall, Jr., Box 1681, Santa Fe, N.M. - 1 $\frac{1}{2}$ %.	

Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
13.	Township 22 South, Range 25 East Section 24: S $\frac{1}{2}$ SE $\frac{1}{4}$	80.00	LC 064528-E February 1, 1951	USA - 12 $\frac{1}{2}$ %	Featherstone Corp. Roswell Pet. Bldg. Roswell, N.M.	Roy L. Flood, 611 S. Missouri, Roswell, N.M. - $\frac{1}{2}$ of 1% ORR	Featherstone Corp. - 100%
TOTAL 13 FEDERAL TRACTS		5,274.40 Acres					

STATE LANDS:

14.	Township 22 South, Range 25 East Section 36: SE $\frac{1}{4}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ NW $\frac{1}{4}$ , W $\frac{1}{2}$ SW $\frac{1}{4}$	160.00	E-6066 March 10, 1952	State of N.M. - 12 $\frac{1}{2}$ %	Gulf Oil Corporation	None	Gulf Oil Corporation - 100%
15.	Township 22 South, Range 26 East Section 31: Lots 1 & 2 (W $\frac{1}{2}$ NW $\frac{1}{4}$ ) NE $\frac{1}{4}$ SW $\frac{1}{4}$	117.85	E-5225 May 10, 1951	State of N.M. - 12 $\frac{1}{2}$ %	Leonard Oil Co., Box 708, Roswell, N.M.	None	Leonard Oil Co. - 100%
16.	Township 22 South, Range 25 East Section 36: N $\frac{1}{4}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , S $\frac{1}{4}$ NW $\frac{1}{4}$ , NW $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{4}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$	480.00	OC-3943 June 17, 1958	State of N.M. - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	None	Honolulu - 100%
17.	Township 22 South, Range 26 East Section 31: Lots 3 & 4, E $\frac{1}{2}$ NW $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$	195.95	OC-4643 October 21, 1958	State of N.M. - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	None	Honolulu - 100%
18.	Township 22 South, Range 26 East Section 31: E $\frac{1}{2}$	320.00	OC-2287 March 18, 1958	State of N.M. - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	None	Honolulu - 100%
TOTAL 5 STATE TRACTS		1,273.80 Acres					

FEE LANDS:

19.	Undivided $\frac{1}{2}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 22, Township 22 South, Range 25 East	60.00 net	Ralph A. Shugart & wife, Rena Shugart, Artesia, N.M., lease dated 7-29-58, expires 7-29-68	Lessors - All	Honolulu Oil Corp.	None	Honolulu - 100%
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Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
19.	Undivided $\frac{1}{4}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Sec. 22, Township 22 South, Range 25 East	30.00 net	Johnney Cockburn & Lessors - All wife, Thelma Cockburn, 711 Fair Bldg., Ft. Worth, Texas, lease dated 7-29-58, expires 7-29-68		Honolulu Oil Corp.	None	Honolulu - 100%
19.	Undivided $\frac{1}{8}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 22, Township 22 South, Range 25 East	15.00 net	C.M. McElhannon & wife, Reine McElhannon, Box 1657, Ft. Worth, Texas, lease dated 7-29-58, expires 7-29-68	Lessors - All	Honolulu Oil Corp.	None	Honolulu - 100%
19.	Undivided $\frac{1}{8}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 22, Township 22 South, Range 25 East	15.00 net	Certtrude Bennett & Mae Smith, Ft. Worth, Texas, & Rose Salzman & husband, Albert Salzman, Houston, Texas, lease dated 7-29-58, expires 7-29-68	Lessors - All	Honolulu Oil Corp.	None	Honolulu - 100%
20.	SE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 30, Township 22 South, Range 26 East	40.00	J.S. Windham & wife, Alma Gray Windham, Carlsbad, New Mexico. Lease dated 5-7-58, expires 5-7-68.	Lessors - All	Skelly Oil Company	None	Skelly - 100%

Two Fee Tracts - 160 Acres

TOTAL 20 TRACTS IN ENTIRE UNIT AREA 6,708.20 Acres

AMENDMENT

THIS AGREEMENT, made and entered into the 1st day of October, 1960, by and between HONOLULU OIL CORPORATION, hereinafter referred to as "Operator", and OLEN F. FEATHERSTONE, FEATHERSTONE CORPORATION, GULF OIL CORPORATION, ERNEST HANSON, LEONARD OIL COMPANY, PHILLIPS PETROLEUM COMPANY, UNION OIL COMPANY OF CALIFORNIA, AND WILSON OIL COMPANY, hereinafter being sometimes collectively referred to as "Non-Operators",

W I T N E S S E T H:

WHEREAS, the parties hereto or their respective predecessors-in-interest made and entered into that certain Joint Operating Agreement dated August 17, 1960 covering certain tracts of land located in Eddy County, State of New Mexico; and

WHEREAS, the parties hereto or their respective predecessors-in-interest amended said Joint Operating Agreement by letter agreement dated September 16, 1960; and

WHEREAS, the parties hereto are parties to and have executed that certain Unit Agreement for the McKittrick Canyon Unit Area dated as of October 1, 1960, which Unit Agreement shall by this reference be incorporated herein and made a part hereof, and without limitation Exhibits "A" and "B" to said Unit Agreement shall be deemed to supersede Exhibits "A" and "B" to said Joint Operating Agreement; and

WHEREAS, the parties hereto desire to amend said Joint Operating Agreement in the respects hereinafter set forth so as to conform the same to the provisions of said Unit Agreement and to amend the same to cover any and all unit operations conducted pursuant to said Unit Agreement.

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Said Joint Operating Agreement dated August 17, 1960 shall be entitled "Unit Operating Agreement, McKittrick Canyon Unit Area, County of Eddy, State of New Mexico."

2. There shall be added to Paragraph 1 the following sentence:

"Notwithstanding the formation of one (1) or more participating areas under and pursuant to the provisions of said Unit Agreement,

all costs and investments incurred in unit operations shall be borne by the parties hereto or any one (1) or more thereof, and production from the subject lands shall be distributed among the parties hereto or any one (1) or more thereof in accordance with the provisions of this Agreement."

3. The list in Paragraph 2 of said Joint Operating Agreement of the parties and their respective percentage shares of the costs and expenses incurred in drilling and completing or abandoning the test well shall be amended to read as follows:

Olen F. Featherstone	1.35405%
Featherstone Corporation	1.35405%
Gulf Oil Corporation	21.61877%
Ernest Hanson	2.70810%
Honolulu Oil Corporation	39.19891%
Leonard Oil Company	1.99468%
Phillips Petroleum Company	---
Union Oil Company	31.77144%
Wilson Oil Company	---
Total	100.00000%

4. The fourth paragraph of Paragraph 8 of said Joint Operating Agreement shall be amended to read as follows:

"During the term of this Agreement, Operator shall pay and charge to the joint account of the parties hereto all ad valorem taxes payable with respect to the subject lands and the improvements placed thereon for the joint account pursuant to this Agreement; and Operator shall pay and charge to the joint account or cause to be paid, with respect to the subject lands, all landowners' royalties, overriding royalties, production payments and other Lease Burdens set forth in Exhibit 'C' or 'D', as the case may be, which said royalties, overriding royalties, production payments and other Lease Burdens shall be borne by the parties hereto in accordance with their respective Beneficial Interests. On demand, Operator shall make available to each party hereto proof of payments made in accordance herewith."

5. The second sentence of the first paragraph of Paragraph 12 of said Joint Operating Agreement shall be amended to read as follows:

"If such well is completed as a producer, the Participating Party shall own and be entitled to receive all of the oil, gas and other hydrocarbon substances produced from such well, subject to the

payment of lessor's royalty, overriding royalties, production payments and other Lease Burdens as set forth in said Exhibit 'C' or 'D', as the case may be, which said royalties, overriding royalties, production payments and other Lease Burdens shall be paid or borne by the Participating Party in proportion that their respective Beneficial Interests bear to the total of their Beneficial Interests, until the Participating Party shall have received oil and gas produced, saved and sold from such well of the total value at the time and place of production of two (2) times the actual cost of drilling or deepening, completing and equipping such well into the tanks, and one hundred per cent (100%) of the cost and expense of operating such well during such period of recovery."

6. The first sentence of the second paragraph of Paragraph 12 of said Joint Operating Agreement shall be amended to read as follows:

"Notwithstanding the provisions of Paragraphs 2 and 3 and the foregoing provisions of this Paragraph 12, consent to the drilling of a well hereunder other than a required well provided for in Paragraph 29 hereof shall not be deemed as consent to the running and cementing of a production string of casing and a completion attempt therein."

7. There shall be added to Paragraph 26 of said Joint Operating Agreement the following sentence:

"Operator shall comply with the provisions of said Unit Agreement and all applicable valid laws and regulations of governmental bodies or agencies asserting jurisdiction over unit operations and shall comply with the determinations of the parties hereto made in accordance with the provisions of Paragraph 3 hereof."

8. There shall be inserted in said Joint Operating Agreement a new Paragraph 28 reading as follows:

"28. Operator shall prepare and submit to the parties hereto each proposal required by said Unit Agreement for the establishment, revision or consolidation of a participating area at least thirty (30) days prior to the proposed date of filing the same with the Director. Such proposal shall be determined by the parties pursuant



to Paragraph 3 hereof. Operator shall file the approved proposal with the Director and take such action as may be necessary to obtain the Director's approval thereof."

9. There shall be inserted in said Joint Operating Agreement a new Paragraph 29 reading as follows:

"29. If the drilling of a well is required by the final order of an authorized representative of the Department of Interior of the United States, Operator shall advise the parties hereto thereof and if the parties hereto or any one (1) or more thereof do not elect to drill such required well under any of the provisions of this Agreement including, without limitation, the provisions of Paragraph 12 hereof, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

- (a) If compensatory royalties may be paid in lieu of drilling the well and if payment thereof is authorized by the parties, Operator shall pay such compensatory royalties; or
- (b) If the drilling of the well may be avoided without other penalty by contraction of the Unit Area through exclusion of lands not then within a participating area, Operators shall endeavor to effect such contraction with the approval of the Director; or
- (c) If production has not theretofore been discovered in paying quantities within the Unit Area, the parties hereto shall terminate said Unit Agreement in accordance with its provisions.

If none of the foregoing alternatives is available, Operator shall drill and complete or abandon such required well for the account of all of the parties hereto and all of the costs and expenses of drilling and completing or abandoning such required well shall be charged to the joint account."

10. There shall be inserted in said Joint Operating Agreement a new Paragraph 30 reading as follows:

"30. Operator shall prepare and submit to the parties hereto, at least thirty (30) days prior to the proposed date of filing the same with the Supervisor, each plan for development and operation of the Unit Area

required by the said Unit Agreement to be submitted to the Supervisor. Each such plan shall provide only for such drilling operations as Operator has been authorized to conduct or any one (1) or more of the parties have undertaken to conduct pursuant to the provisions of this Agreement. Such plan shall be approved by the parties pursuant to Paragraph 3 hereof. Operator shall advise each party hereto of the approval or disapproval by the Supervisor of any such plan submitted pursuant to a determination by the parties. If any operations are subsequently approved by the parties or undertaken by any one (1) or more thereof which were not included in a plan approved by the Supervisor, Operator shall file an amendment of such plan and endeavor to obtain the approval of such amendment by the Supervisor."

11. There shall be inserted in said Joint Operating Agreement a new Paragraph 31 reading as follows:

"31. Notwithstanding any contraction of the Unit Area pursuant to the provisions of said Unit Agreement and the resultant exclusion of lands from this Agreement, the Participating Interests and the Beneficial Interests of the parties hereto shall remain unchanged. In the event of expansion of the Unit Area, Operator shall, with the approval of the parties, revise Exhibits 'C' and 'D' to reflect the facts thereof. Operator shall initiate any contraction or expansion of the Unit Area only with the approval of the parties hereto."

12. There shall be inserted in said Joint Operating Agreement a new Paragraph 32 reading as follows:

"32. Prior to the commencement of operations under said Unit Agreement, all owners of Working Interests in the Unit Area who have joined in said Unit Agreement shall be privileged to execute or ratify this Agreement. After commencement of operations under said Unit Agreement, subsequent joinder in said Unit Agreement and in this Agreement by the owner of a Working Interest in the Unit Area shall be permitted only upon compliance with such reasonable terms and conditions as may be approved by the parties hereto."

13. There shall be inserted in said Joint Operating Agreement a new Paragraph 33 reading as follows:

"33. No party hereto shall withdraw a tract from said Unit Agreement except with the approval of the parties hereto. The parties hereto may direct that a tract as to which the owner of any substantial Lease Burden therein has not executed said Unit Agreement be withdrawn from said Unit Agreement in accordance with the provisions of Section 29 of said Unit Agreement; provided, however, that if the party hereto committing such tract to said Unit Agreement furnishes indemnity satisfactory to the parties hereto, such party shall not be required to withdraw such tract from said Unit Agreement."

14. Paragraph 28 of said Joint Operating Agreement shall be renumbered as Paragraph 34 and there shall be added to the list of parties the following:

"Featherstone Corporation, Roswell Petroleum Building,  
Roswell, New Mexico."

15. Paragraph 29 of said Joint Operating Agreement shall be renumbered as Paragraph 35 and shall be amended to read as follows:

"This Agreement shall remain in full force and effect for and during the term of said Unit Agreement and thereafter until all property jointly owned hereunder shall have been disposed of and the accounts among the parties shall have been settled; provided, however, that the termination of this Agreement shall not relieve any party hereto from any liability which accrued or attached prior to the date of such termination."

Paragraphs 30 and 31 of said Joint Operating Agreement shall be renumbered as Paragraphs 36 and 37, respectively.

16. Exhibits "C" and "D" to said Joint Operating Agreement shall be amended in the manner set forth in revised Exhibits "C" and "D" attached hereto and made a part hereof.

17. Said Joint Operating Agreement, as amended by letter agreement dated September 16, 1960 and as amended hereby, shall continue in full force and effect.

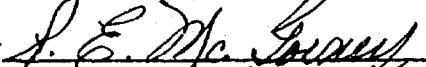
This Agreement shall be binding upon and inure to the benefit thereof the respective heirs, successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed these presents as of the day and year first above written.

ATTEST:

  
Secretary

HONOLULU OIL CORPORATION

By   
Vice President

Date December 22, 1960

Date \_\_\_\_\_

ATTEST:

Carrie W. Duenkel  
Asst Sec

Date 12/27/60

ATTEST:

A. C. Vivian  
Assistant Secretary

Date DEC 22 1960

Date Dec. 28, 1960

ATTEST:

Marion Koney  
ASST SECY TREAS.

Date 12/29/60

ATTEST:

\_\_\_\_\_

Date \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Date \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Date \_\_\_\_\_

Olen F. Featherstone  
Olen F. Featherstone

FEATHERSTONE CORPORATION

By Olen F. Featherstone

GULF OIL CORPORATION

By W. H. Shear  
Attorney In Fact

Law WHS  
Consul WHS  
Pres WHS

Ernest A. Hanson  
Ernest Hanson

LEONARD OIL COMPANY

By Robert J. Leonard  
PRESIDENT

PHILLIPS PETROLEUM COMPANY

By \_\_\_\_\_

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_

WILSON OIL COMPANY

By \_\_\_\_\_

Date \_\_\_\_\_

Olen F. Featherstone

ATTEST:

FEATHERSTONE CORPORATION

By \_\_\_\_\_

Date \_\_\_\_\_

ATTEST:

GULF OIL CORPORATION

By \_\_\_\_\_

Date \_\_\_\_\_

Date \_\_\_\_\_

Ernest Hanson

ATTEST:

LEONARD OIL COMPANY

By \_\_\_\_\_

Date \_\_\_\_\_

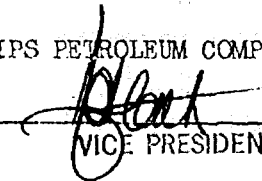
ATTEST:

  
ASSISTANT SECRETARY

PHILLIPS PETROLEUM COMPANY

By \_\_\_\_\_

VICE PRESIDENT

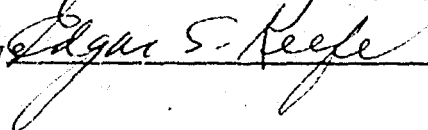
  
R. J. P. & L.

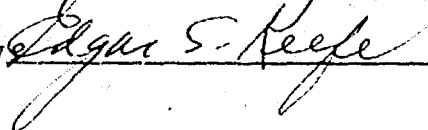
Date 10-12-61

ATTEST:

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_



  
R. J. P. & L.

Date \_\_\_\_\_

ATTEST:

WILSON OIL COMPANY

By \_\_\_\_\_

Date \_\_\_\_\_

Date \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Date \_\_\_\_\_

ATTEST:

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ATTEST:

\_\_\_\_\_

Date \_\_\_\_\_

*John Bair*  
*Jan 1962*

*December 28, 1962*

\_\_\_\_\_ Olen F. Featherstone

FEATHERSTONE CORPORATION

By \_\_\_\_\_

GULF OIL CORPORATION

By \_\_\_\_\_

\_\_\_\_\_ Ernest Hanson

LEONARD OIL COMPANY

By \_\_\_\_\_

PHILLIPS PETROLEUM COMPANY

By \_\_\_\_\_

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_

WILSON OIL COMPANY

By *William Wilson*  
*President*

EXHIBIT "C"

McKITTRICK CANYON UNIT  
DESCRIPTION OF COMMITTED LANDS  
STATEMENT OF PARTICIPATING AND BENEFICIAL INTERESTS

Description of Committed Lands

Working Interests in the following lands situated in the County of Eddy, State of New Mexico, have been committed to the Unit and Unit Operating Agreements:

Township 22 South, Range 25 East

Section 22: East Half ( $E\frac{1}{2}$ )  
 Section 23: All  
 Section 24: All  
 Section 25: All  
 Section 26: All  
 Section 27: East Half ( $E\frac{1}{2}$ )  
 Section 34: East Half ( $E\frac{1}{2}$ )  
 Section 35: All  
 Section 36: All

Township 22 South, Range 26 East

Section 19: All  
 Section 30: All except the  
 Southeast Quarter of  
 the Southeast Quarter  
 ( $SE\frac{1}{4}$   $SE\frac{1}{4}$ )  
 Section 31: All

Statement of Participating and Beneficial Interests

Participation in 50% of Phillips and 100% of Wilson Acreages

<u>Party</u>	<u>Tract No.</u>	<u>Lease Burdens</u>	<u>Acrees</u>		<u>Percentage</u>	
			<u>Participating</u>	<u>Beneficial</u>	<u>Participating</u>	<u>Beneficial</u>
Union Oil Company of California	1	15.50%	680.00	574.60	10.19766	10.22520
	2	15.50%	560.00	473.20	8.39807	8.42075
	3	15.50%	637.12	538.37	9.55460	9.58048
	9	25.00%	203.34	152.50	3.04940	2.71379
	12	16.00%	19.06	16.01	.28583	.28490
	Total		2099.52	1754.68	31.48556	31.22512
Gulf Oil Corporation	4	15.50%	797.28	673.70	11.95645	11.98872
	5	15.50%	160.00	135.20	2.39945	2.40593
	6	15.50%	160.00	135.20	2.39945	2.40593
	13	12.50%	160.00	140.00	2.39945	2.49135
	9	25.00%	138.36	103.77	2.07492	1.84662
	12	16.00%	12.97	10.89	.19451	.19379
	Total		1428.61	1198.76	21.42423	21.33234
Olen F. Featherstone	7	13.00%	80.00	69.60	1.19973	1.23856
	9	25.00%	8.66	6.50	.12994	.11567
	12	16.00%	.82	.69	.01222	.01219
	Total		89.48	76.79	1.34189	1.36642
Featherstone Corporation	7	13.00%	80.00	69.60	1.19972	1.23855
	9	25.00%	8.67	6.50	.12995	.11567
	12	16.00%	.81	.68	.01222	.01219
	Total		89.48	76.78	1.34189	1.36641
Ernest Hanson	8	13.00%	160.00	139.20	2.39945	2.47711
	9	25.00%	17.33	13.00	.25989	.23134
	12	16.00%	1.63	1.37	.02444	.02438
	Total		178.96	153.57	2.68378	2.73283
Wilson Oil Company	9	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Phillips Petroleum Company	12	16.00%	60.00	50.40	.89979	.89688
	Total		60.00	50.40	.89979	.89688

Party	Tract No.	Lease Burdens	Acres		Percentage	
			Participating	Beneficial	Participating	Beneficial
Honolulu Oil Corporation	10	16.00%	880.00	739.20	13.19696	13.15431
	11	15.50%	320.00	270.40	4.79890	4.81186
	15	12.50%	480.00	420.00	7.19834	7.47404
	16	12.50%	195.95	171.46	2.93857	3.05119
	17	12.50%	320.00	280.00	4.79890	4.98269
	18	12.50%	120.00	105.00	1.79959	1.86851
	9	25.00%	250.87	188.15	3.76218	3.34819
	12	16.00%	23.51	19.75	.35257	.35146
	Total		2590.33	2193.96	38.84601	39.04225
Leonard Oil Company	14	12.50%	117.85	103.12	1.76734	1.83506
	9	25.00%	12.77	9.58	.19151	.17048
	12	16.00%	1.20	1.01	.01800	.01797
	Total		131.82	113.71	1.97685	2.02351
Total (Unit)			6668.20	5619.45	100.00000	100.00000

Recapitulation of Participating and Beneficial Percentages

Party	Percentage	
	Participating	Beneficial
Union Oil Company of California	31.48556	31.22512
Gulf Oil Corporation	21.42423	21.33234
Olen F. Featherstone	1.34189	1.36642
Featherstone Corporation	1.34189	1.36641
Ernest Hanson	2.68378	2.73283
Wilson Oil Company	- 0 -	- 0 -
Phillips Petroleum Company	.99979	.89688
Honolulu Oil Corporation	38.84601	39.04225
Leonard Oil Company	1.97685	2.02351
Total	100.00000	100.00000

December 12, 1960



EXHIBIT "D"

McKITTRICK CANYON UNIT  
DESCRIPTION OF COMMITTED LANDS  
STATEMENT OF PARTICIPATING AND BENEFICIAL INTERESTS

Description of Committed Lands

Working Interests in the following lands situated in the County of Eddy, State of New Mexico, have been committed to the Unit and Unit Operating Agreements:

Township 22 South, Range 25 East

Section 22: East Half ( $E\frac{1}{2}$ )  
 Section 23: All  
 Section 24: All  
 Section 25: All  
 Section 26: All  
 Section 27: East Half ( $E\frac{1}{2}$ )  
 Section 34: East Half ( $E\frac{1}{2}$ )  
 Section 35: All  
 Section 36: All

Township 22 South, Range 26 East

Section 19: All  
 Section 30: All except the Southeast Quarter of the Southeast Quarter ( $SE\frac{1}{4}$   $SE\frac{1}{4}$ )  
 Section 31: All

Statement of Participating and Beneficial Interests  
Participating in 50% of Phillips and 50% of Wilson Acreages

Party	Tract No.	Lease Burdens	Acres		Percentage	
			Participating	Beneficial	Participating	Beneficial
Union Oil Company of California	1	15.50%	680.00	574.60	10.19766	10.08167
	2	15.50%	560.00	473.20	8.39807	8.30256
	3	15.50%	637.12	538.37	9.55460	9.44600
	9	12.50%	101.67	88.96	1.52470	1.56085
	12	16.00%	19.06	16.01	.28583	.28090
	Total		1997.85	1691.14	29.96086	29.67198
Gulf Oil Corporation	4	15.50%	797.28	673.70	11.95645	11.82044
	5	15.50%	160.00	135.20	2.39945	2.37216
	6	15.50%	160.00	135.20	2.39945	2.37216
	13	12.50%	160.00	140.00	2.39945	2.45638
	9	12.50%	69.18	60.53	1.03746	1.06203
	12	16.00%	12.97	10.89	.19450	.19107
Olen F. Featherstone	Total		1359.43	1155.52	20.38676	20.27424
	7	13.00%	80.00	69.60	1.19973	1.22117
	9	12.50%	4.34	3.80	.06501	.06659
	12	16.00%	.81	.68	.01222	.01202
	Total		85.15	74.08	1.27696	1.29978
Featherstone Corporation	7	13.00%	80.00	69.60	1.19972	1.22117
	9	12.50%	4.33	3.79	.06501	.06658
	12	16.00%	.82	.69	.01222	.01202
	Total		85.15	74.08	1.27695	1.29977
Ernest Hanson	8	13.00%	160.00	139.20	2.39945	2.44234
	9	12.50%	8.67	7.59	.13002	.13317
	12	16.00%	1.63	1.37	.02444	.02404
	Total		170.30	148.16	2.55391	2.59955
Wilson Oil Company	9	12.50%	320.00	280.00	4.79890	4.91275
	Total		320.00	280.00	4.79890	4.91275
Phillips Petroleum Company	12	16.00%	60.00	50.40	.89979	.88430
	Total		60.00	50.40	.89979	.88430

Party	Tract No.	Lease Burdens	Acres		Percentage	
			Participating	Beneficial	Participating	Beneficial
Honolulu Oil Corporation	10	16.00%	880.00	739.20	13.19696	12.96967
	11	15.50%	320.00	270.40	4.79890	4.74432
	15	12.50%	480.00	420.00	7.19834	7.36913
	16	12.50%	195.95	171.46	2.93857	3.00826
	17	12.50%	320.00	280.00	4.79890	4.91276
	18	12.50%	120.00	105.00	1.79959	1.84228
	9	12.50%	125.43	109.75	1.88102	1.92562
	12	16.00%	23.51	19.75	.35257	.34653
	Total		2464.89	2115.56	36.96485	37.11867
Leonard Oil Company	14	12.50%	117.85	103.12	1.76734	1.80930
	9	12.50%	6.38	5.58	.09568	.09790
	12	16.00%	1.20	1.01	.01800	.01772
	Total		125.43	109.71	1.88102	1.92492
Total (Unit)			6668.20	5699.45	100.00000	100.00000

Recapitulation of Participating and Beneficial Percentages

Party	Percentage	
	Participating	Beneficial
Union Oil Company of California	29.96086	29.67198
Gulf Oil Corporation	20.38676	20.27424
Olen F. Featherstone	1.27696	1.29978
Featherstone Corporation	1.27695	1.29977
Ernest Hanson	2.55391	2.59955
Wilson Oil Company	4.79890	4.91275
Phillips Petroleum Company	.89979	.88430
Honolulu Oil Corporation	36.96485	37.11867
Leonard Oil Company	1.88102	1.92492
Total	100.00000	100.00000

December 12, 1960

Case 2141

EXHIBIT "B"  
MCKITTRICK CANYON UNIT  
EDDY COUNTY, NEW MEXICO

Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
FEDERAL LANDS:							
1.	Township 22 South, Range 25 East Section 22: SE $\frac{1}{4}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ Section 23: W $\frac{1}{2}$ , W $\frac{1}{2}$ E $\frac{1}{2}$	680.00	NM 023091 August 1, 1956	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	\$500.00 per acre out of 3%, which royalty is owned as follows: Marion V. Harris & Lawrence C. Harris, Box 6657, Roswell, N.M. - 1.50%. The Blanco Company, Box 146, Roswell, N.M. - 1.50%.	Union - 100%
2.	Township 22 South, Range 25 East Section 26: NW $\frac{1}{4}$ , NW $\frac{1}{4}$ NE $\frac{1}{4}$ , N $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 27: NE $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$	560.00	NM 023022 August 1, 1956	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	\$750.00 per acre out of 3%, which royalty is owned by Emmett D. White & wife Blanche V. White, Box 146, Roswell, N.M.	Union - 100%
3.	Township 22 South, Range 26 East Section 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ , W $\frac{1}{2}$ E $\frac{1}{2}$ , E $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ SW $\frac{1}{4}$ Township 22 South, Range 25 East Section 35: SE $\frac{1}{4}$ W $\frac{1}{2}$	637.12	NM 016754 May 1, 1955	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	\$500.00 per acre out of 3%, which royalty is owned by T.J. Deason, Jr. & wife, June C. Deason, 1804 W. 4th St., Roswell, N.M.	Union - 100%
4. (1)	Township 22 South, Range 25 East Section 23: E $\frac{1}{2}$ W $\frac{1}{2}$ Section 24: N $\frac{1}{2}$ Township 22 South, Range 26 East Section 19: Lots 1, 2, 3, 4 E $\frac{1}{2}$ W $\frac{1}{2}$	797.28	LC 064528-C February 1, 1951	USA - 12 $\frac{1}{2}$ %	F.W. Estill, Box 1023, Kermit, Texas (Optioned to Gulf Oil Corp.)	\$750.00 per acre out of 3%, which royalty is owned as follows: Roy L. Flood & wife, Dixie D. Flood, 712 N. Main St., Roswell, N.M. - 1.65%. Ernest A. Hanson, Box 852, Roswell, N.M. - 1.35%.	F.W. Estill - 100%

(1) Gulf Oil Corporation is acquiring Tract No. 4 by assignment subject to approval of the Director, Bureau of Land Management.

RECEIVED  
BUREAU OF LAND MANAGEMENT  
WASHINGTON, D.C.

Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
5.	Township 22 South, Range 26 East Section 19: NE $\frac{1}{4}$	160.00	LC 067965 April 1, 1952	USA - 12 $\frac{1}{2}$ %	F.W. Estill, Box 1023, Kermit, Texas (Optioned to Gulf Oil Corp.)	\$500.00 per acre out of 3%, which royalty is owned as follows: Mrs. Mary Didlake & husband, Tom Didlake, Rt. 2, Box 79-A, Roswell, N.M.-1.65%. Ernest A. Hanson, Box 852, Roswell, N.M.-1.35%.	100%
6.	Township 22 South, Range 26 East Section 19: SE $\frac{1}{4}$	160.00	NW 06320 September 1, 1952	USA - 12 $\frac{1}{2}$ %	Gulf Oil Corp.	\$750.00 per acre out of 3%, which royalty is owned as follows: Mrs. W.H. Milner & husband, W.H. Milner, 609 S. Lea, Roswell, N.M.-1.65%. Ernest A. Hanson, Box 852, Roswell, N.M.-1.35%.	100%
7.	Township 22 South, Range 25 East Section 24: NE $\frac{1}{4}$ SE $\frac{1}{4}$	80.00	LC 064528-D February 1, 1951 Expires 4-30-62	USA - 12 $\frac{1}{2}$ %	Olen F. Featherstone Roy L. Flood, 611 S. Missouri, Roswell, N.M.	100%	100%
8.	Township 22 South, Range 25 East Section 24: SW $\frac{1}{4}$	160.00	LC 064528 February 1, 1951	USA - 12 $\frac{1}{2}$ %	Ernest Hanson	100%	100%
9.	Township 22 South, Range 25 East Section 25: All	640.00	NW 015078 October 1, 1954	USA - 12 $\frac{1}{2}$ %	Wilson Oil Company Box 627, Santa Fe, N.M.	100%	100%
10. (2)	Township 22 South, Range 25 East Section 26: SE $\frac{1}{4}$ , NE $\frac{1}{4}$ , SW $\frac{1}{4}$ , NW $\frac{1}{4}$ Section 27: SE $\frac{1}{4}$ , NE $\frac{1}{4}$ , SW $\frac{1}{4}$ , NW $\frac{1}{4}$ Section 35: NE $\frac{1}{4}$ , SE $\frac{1}{4}$ , SW $\frac{1}{4}$ , NW $\frac{1}{4}$	880.00	NW 034925 August 1, 1958	USA - 12 $\frac{1}{2}$ %	Fred M. Cassidy (Optioned to Honolulu Oil Corp.)	100%	100%

(2) Honolulu Oil Corporation is acquiring Tract No. 10 by assignment subject to approval of the Director, Bureau of Land Management.

Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
11.	Township 22 South, Range 25 East Section 34: 1 1/2	320.00	LC 064548 February 1, 1951	USA - 12 1/2%	Honolulu Oil Corp.	Grady Southworth & wife, Ethel Marie Southworth, 108 W. Albuquerque, Roswell, N.M. - 3%.	Honolulu - 100%
12.	Township 22 South, Range 25 East Section 35: N 1/2 NW 1/4, SW 1/4 NW 1/4	120.00	NM 0879 December 1, 1951	USA - 12 1/2%	Mrs. Zela D. McBride (Optioned to Phillips Petroleum Co.)	Zela D. Wood (former- Mrs. Zela D. Wood by Zela D. McBride) (formerly McBride) - 220 S. Endora, Denver, 100% Colo. 2%; Eleanor L. Rettig, Box 1597, Midland, Texas - 1 1/2%; Ora R. Hall, Jr., Box 1681, Santa Fe, N.M. - 1 1/2%.	
13.	Township 22 South, Range 25 East Section 24: S 1/2 SE 1/4	80.00	LC 064528-E February 1, 1951 Expires 4-30-62	USA - 12 1/2%	Featherstone Corp. Roswell Pet. Bldg. Roswell, N.M.	Roy L. Flood, 611 S. Missouri, Roswell, N.M. - 1/2 of 1% ORR; Olen F. Featherstone, Roswell Pet. Bldg., Roswell, N.M. - 5%.	Featherstone Corp. - 100%
TOTAL 13 FEDERAL TRACTS 5,274.40 Acres							
STATE LANDS:							
14.	Township 22 South, Range 25 East Section 36: SE 1/4 NE 1/4, NE 1/4 NW 1/4, W 1/2 SW 1/4	160.00	E-6066 March 10, 1952	State of N.M. - 12 1/2%	Gulf Oil Corporation		Gulf Oil Corporation - 100%
15.	Township 22 South, Range 26 East Section 31: Lots 1 & 2 (W 1/2 NW 1/4) NE 1/4 SW 1/4	117.85	E-5225 May 10, 1951	State of N.M. - 12 1/2%	Leonard Oil Co., Box 708, Roswell, N.M.		Leonard Oil Co. - 100%
16.	Township 22 South, Range 25 East Section 36: N 1/2 NE 1/4, SW 1/4 NE 1/4, S 1/2 NW 1/4, NW 1/4 NW 1/4, E 1/2 SW 1/4, SE 1/4	480.00	OG-3943 June 17, 1958	State of N.M. - 12 1/2%	Honolulu Oil Corp.		Honolulu - 100%
17.	Township 22 South, Range 26 East Section 31: Lots 3 & 4, E 1/2 NW 1/4, SE 1/4 SW 1/4	195.95	OG-4643 October 21, 1958	State of N.M. - 12 1/2%	Honolulu Oil Corp.		Honolulu - 100%

Honolulu - 100%

Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
18.	Township 22 South, Range 26 East Section 31: E $\frac{1}{2}$	320.00	OG-2287 March 18, 1958	State of N.M. - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	None	Honolulu - 100%
TOTAL 5 STATE TRACTS		1,273.80 Acres					

FEE LANDS:

19.	Undivided $\frac{1}{2}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 22, Township 22 South, Range 25 East	60.00 net	Ralph A. Shugart & wife, Rena Shugart, Artesia, N.M., lease dated 7-29-58, expires 7-29-68	All Lessors -	Honolulu Oil Corp.	None	Honolulu - 100%
19.	Undivided $\frac{1}{2}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 22, Township 22 South, Range 25 East	30.00 net	Johnney Cockburn & wife, Thelma Cockburn, 711 Fair Bldg., Ft. Worth, Texas, lease dated 7-29-58, expires 7-29-68	All Lessors -	Honolulu Oil Corp.	None	Honolulu - 100%
19.	Undivided 1/8 interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 22, Township 22 South, Range 25 East	15.00 net	C.M. McElhannon & wife, Reine McElhannon, Box 1657, Ft. Worth, Texas, lease dated 7-29-58, expires 7-29-68	All Lessors -	Honolulu Oil Corp.	None	Honolulu - 100%
19.	Undivided 1/8 interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 22, Township 22 South, Range 25 East	15.00 net	Certitude Bennett & Mae Smith, Ft. Worth, Texas, & Rose Salzman & husband, Albert Salzman, Houston, Texas, lease dated 7-29-58, expires 7-29-68	All Lessors -	Honolulu Oil Corp.	None	Honolulu - 100%

<u>Tract No.</u>	<u>Description of Land</u>	<u>No. of Acres</u>	<u>Serial No. &amp; Effective Date of Lease</u>	<u>Basic Royalty &amp; Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty &amp; Percentage</u>	<u>Committed Working Interest &amp; Percentage</u>
20.	SE 1/4 Section 30, Township 22 South, Range 26 East	40.00	J.S. Windham & wife, Alma Gray, Windham, Carlisbad, New Mexico. Lease dated 5-7-58, expires 5-7-68.	Lessors - All	Skelly Oil Company	None	Skelly - 100%

Two Fee Tracts - 160 Acres

TOTAL 20 TRACTS IN ENTIRE UNIT AREA 6,708.20 Acres

EXHIBIT "B"  
McKITTICK CANYON UNIT  
EDDY COUNTY, NEW MEXICO

<u>Tract No.</u>	<u>Description of Land</u>	<u>No. of Acres</u>	<u>Serial No. &amp; Effective Date of Lease</u>	<u>Basic Royalty &amp; Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty &amp; Percentage</u>	<u>Committed Working Interest &amp; Percentage</u>
1.	Township 22 South, Range 25 East Section 22: SE $\frac{1}{4}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ Section 23: W $\frac{1}{2}$ , W $\frac{1}{2}$ E $\frac{1}{2}$	680.00	NM 023091 August 1, 1956	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	\$500.00 per acre out of 3%, which royalty is owned as follows: Marion V. Harris & Lawrence C. Harris, Box 6557, Roswell, N.M.-1.50%. The Blanco Company, Box 146, Roswell, N.M.- 1.50%.	Union - 100%
2.	Township 22 South, Range 25 East Section 26: NW $\frac{1}{4}$ , NW $\frac{1}{4}$ NE $\frac{1}{4}$ , N $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 27: NE $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$	560.00	NM 023022 August 1, 1956	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	\$750.00 per acre out of 3%, which royalty is owned by Emmett D. White & wife Blanche V. White, Box 146, Roswell, N.M.	Union - 100%
3.	Township 22 South, Range 26 East Section 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ , W $\frac{1}{2}$ E $\frac{1}{2}$ , E $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$ Township 22 South, Range 25 East Section 35: SE $\frac{1}{4}$ NE $\frac{1}{4}$	637.12	NM 016754 May 1, 1955	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	\$500.00 per acre out of 3%, which royalty is owned by T.J. Deason, Jr. & wife, June C. Deason, 1804 W. 4th St., Roswell, N.M.	Union - 100%
4. (1)	Township 22 South, Range 25 East Section 23: SE $\frac{1}{4}$ E $\frac{1}{2}$ Section 24: W $\frac{1}{2}$ Township 22 South, Range 26 East Section 19: Lots 1, 2, 3, 4 E $\frac{1}{2}$ W $\frac{1}{2}$	797.28	LC 064528-C February 1, 1951	USA - 12 $\frac{1}{2}$ %	F.W. Estill, Box 1023, Kermitt, Texas (Optioned to Gulf Oil Corp.)	\$750.00 per acre out of 3%, which royalty is owned as follows: Roy L. Flood & wife, Dixie D. Flood, 712 N. Main St., Roswell, N.M.-1.65%. Ernest A. Hanson, Box 852, Roswell, N.M.-1.35%.	F.W. Estill-100%

(1) Gulf Oil Corporation is acquiring Tract No. 4 by assignment subject to approval of the Director, Bureau of Land Management.



Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
5.	Township 22 South, Range 26 East Section 19: NE $\frac{1}{4}$	160.00	IC 067965 April 1, 1952	USA - 12 $\frac{1}{2}$ %	F.W. Estill, Box 1023, Kermit, Texas (Optioned to Gulf Oil Corp.)	\$500.00 per acre out F.W. Estill - 100% of 3 $\frac{1}{2}$ , which royalty is owned as follows: Mrs. Mary Didlake & husband, Tom Didlake, Rt. 2, Box 79-A, Roswell, N.M.-1.65%. Ernest A. Hanson, Box 352, Roswell, N.M.-1.35%.	
6.	Township 22 South, Range 26 East Section 19: SE $\frac{1}{4}$	160.00	NM 06320 September 1, 1952	USA - 12 $\frac{1}{2}$ %	Gulf Oil Corp.	\$750.00 per acre out Mrs. W.H. Milner - of 3 $\frac{1}{2}$ , which royalty 100% is owned as follows: Mrs. W.H. Milner & husband, V.H. Milner, 609 S. Lee, Roswell, N.M.-1.65%. Ernest A. Hanson, Box 852, Roswell, N.M.-1.35%.	
7.	Township 22 South, Range 25 East Section 24: N $\frac{1}{2}$ SE $\frac{1}{4}$	80.00	IC 064528-D February 1, 1951 Expires 4-30-62	USA - 12 $\frac{1}{2}$ %	Olen F. Featherstone Roy I. Flood, 611 S. Roswell Pet. Bldg. Roswell, N.M.		Olen F. Featherstone - 100%
8.	Township 22 South, Range 25 East Section 24: SW $\frac{1}{4}$	160.00	IC 064528 February 1, 1951	USA - 12 $\frac{1}{2}$ %	Ernest Hanson		Roy I. Flood, 611 S. Ernest Hanson - 100% Missouri, Roswell, N.M. - $\frac{1}{2}$ of 1 $\frac{1}{2}$ ORR
9.	Township 22 South, Range 25 East Section 25: All	640.00	NM 015078 October 1, 1954	USA - 12 $\frac{1}{2}$ %	Wilson Oil Company Box 627, Santa Fe, N.M.	None	Wilson Oil Co. - 100%
10. (2)	Township 22 South, Range 25 East Section 26: SE $\frac{1}{4}$ , E $\frac{1}{2}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ SW $\frac{1}{4}$ Section 27: S $\frac{1}{2}$ SE $\frac{1}{4}$ Section 35: N $\frac{1}{2}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NW $\frac{1}{4}$ , S $\frac{1}{2}$	880.00	NM 034925 August 1, 1958	USA - 12 $\frac{1}{2}$ %	Fred M. Cassidy (Optioned to Honolulu Oil Corp.)		Irme M. Hanson & husband, L.A. Hanson, 512 Garst St., Artesia, N.M.-3%; Fred M. Cassidy - $\frac{1}{2}$ of 1%

(2) Honolulu Oil Corporation is acquiring Tract No. 10 by assignment subject to approval of the Director, Bureau of Land Management.

<u>Tract No.</u>	<u>Description of Land</u>	<u>No. of Acres</u>	<u>Serial No. &amp; Effective Date of Lease</u>	<u>Basic Royalty &amp; Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty &amp; Percentage</u>	<u>Committted Working Interest &amp; Percentage</u>
11.	Township 22 South, Range 25 East Section 34: E $\frac{1}{2}$	320.00	LC 064548 February 1, 1951	USA - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	Grady Southworth & wife, Ethel Marie Southworth, 108 W. Albuquerque, Roswell, N.M. - 3%.	Honolulu - 100%
12.	Township 22 South, Range 25 East Section 35: N $\frac{1}{2}$ NW $\frac{1}{4}$ , SW $\frac{1}{4}$ NW $\frac{1}{4}$	120.00	NM 0879 December 1, 1951	USA - 12 $\frac{1}{2}$ %	Mrs. Zela D. McBride (Optioned to Phillips Petroleum Co.)	Zela D. Wood (former- Mrs. Zela D. Wood by Zela D. McBride) - 220 S. Eudora, Denver, 100% Colo. 2%; Eleanor L. Rettig, Box 1597, Midland, Texas - 1 $\frac{1}{2}$ %; Ora R. Hall, Jr., Box 1681, Santa Fe, N.M. - 1 $\frac{1}{2}$ %.	(formerly McBride) - 100%
13.	Township 22 South, Range 25 East Section 24: S $\frac{1}{2}$ SE $\frac{1}{4}$	80.00	LC 064528-F February 1, 1951 Expires 4-30-62	USA - 12 $\frac{1}{2}$ %	Featherstone Corp. Roswell Pet. Bldg. Roswell, N.M.	Roy L. Flood, 611 S. Missouri, Roswell, N.M. - $\frac{1}{2}$ of 1% ORR; Olen F. Featherstone, Roswell Pet. Bldg., Roswell, N.M. - 5%.	Featherstone Corp. - 100%
TOTAL 13 FEDERAL TRACTS 5,274.40 Acres							

STATE LANDS:

14.	Township 22 South, Range 25 East Section 36: SE $\frac{1}{4}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ NW $\frac{1}{4}$ , W $\frac{1}{2}$ SW $\frac{1}{4}$	160.00	E-6066 March 10, 1952	State of N.M. - 12 $\frac{1}{2}$ %	Gulf Oil Corporation	None	Gulf Oil Corporation - 100%
15.	Township 22 South, Range 26 East Section 31: Lots 1 & 2 (W $\frac{1}{2}$ NW $\frac{1}{4}$ ) NE $\frac{1}{4}$ SW $\frac{1}{4}$	117.85	E-5225 May 10, 1951	State of N.M. - 12 $\frac{1}{2}$ %	Leonard Oil Co., Box 708, Roswell, N.M.	None	Leonard Oil Co. - 100%
16.	Township 22 South, Range 25 East Section 36: N $\frac{1}{2}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , S $\frac{1}{2}$ NW $\frac{1}{4}$ , NW $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$	480.00	OG-3943 June 17, 1958	State of N.M. - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	None	Honolulu - 100%
17.	Township 22 South, Range 26 East Section 31: Lots 3 & 4, E $\frac{1}{2}$ NW $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$	195.95	OG-4643 October 21, 1958	State of N.M. - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	None	Honolulu - 100%

Tract No.	Description of Land	No. of Acres	Serial No. & Effective Date of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty & Percentage	Committed Working Interest & Percentage
18.	Township 22 South, Range 26 East Section 31: E $\frac{1}{2}$	320.00	OG-2287 March 18, 1958	State of N.M. - 12 $\frac{1}{2}$ %	Honolulu Oil Corp.	None	Honolulu - 100%
TOTAL 5 STATE TRACTS		1,273.80 Acres					

FEE LANDS:

19.	Undivided $\frac{1}{2}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 22, Township 22 South, Range 25 East	60.00 net	Ralph A. Shugart & wife, Rena Shugart, Artesia, N.M., Lease dated 7-29-58, expires 7-29-68	Lessors - All	Honolulu Oil Corp.	None	Honolulu - 100%
19.	Undivided $\frac{1}{2}$ interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 22, Township 22 South, Range 25 East	30.00 net	Johney Cockburn & wife, Thelma Cockburn, 711 Fair Bldg., Ft. Worth, Texas, lease dated 7-29-58, expires 7-29-68	Lessors - All	Honolulu Oil Corp.	None	Honolulu - 100%
19.	Undivided 1/8 interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 22, Township 22 South, Range 25 East	15.00 net	C.M. McElhannon & wife, Reine McElhannon, Box 1657, Ft. Worth, Texas, lease dated 7-29-58, expires 7-29-68	Lessors - All	Honolulu Oil Corp.	None	Honolulu - 100%
19.	Undivided 1/8 interest in N $\frac{1}{2}$ NE $\frac{1}{4}$ & SW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 22, Township 22 South, Range 25 East	15.00 net	Gertrude Bennett & Mae Smith, Ft. Worth, Texas, & Rose Salzman & husband, Albert Salzman, Houston, Texas. Lease dated 7-29-58, expires 7-29-68	Lessors - All	Honolulu Oil Corp.	None	Honolulu - 100%

<u>Tract No.</u>	<u>Description of Land</u>	<u>No. of Acres</u>	<u>Serial No. &amp; Effective Date of Lease</u>	<u>Basic Royalty &amp; Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty &amp; Percentage</u>	<u>Committed Working Interest &amp; Percentage</u>
20.	SE $\frac{1}{2}$ SE $\frac{1}{2}$ Section 30, Township 22 South, Range 26 East	40.00	J.S. Windham & wife, Alma Gray, Windham, Carlshed, New Mexico. Lease dated 5-7-58, expires 5-7-68.	Lessors - All	Skelly Oil Company	None	Skelly - 100%

Two Fee Tracts - 160 Acres

TOTAL 20 TRACTS IN ENTIRE UNIT AREA 6,708.20 Acres

CASE 2142: Application of the OCC  
on its own motion to consider pro-  
rating gas from Monument-McKee Gas  
pool, Bagley-Upper & Bagley-Lower.

Casa No.

2142

Application, Transcript,  
Small Exhibits, Etc.

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. 2142  
Order No. R-1670-D

APPLICATION OF THE OIL CONSERVATION  
COMMISSION ON ITS OWN MOTION TO  
CONSIDER PRORATING THE GAS PRODUCTION  
FROM THE MONUMENT-MCKEE GAS POOL, THE  
BAGLEY-UPPER PENNSYLVANIAN GAS POOL,  
AND THE BAGLEY-LOWER PENNSYLVANIAN GAS  
POOL, ALL IN LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on December 14, 1960, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 21st day of December, 1960, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, 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 by Order No. R-1031 special rules and regulations were promulgated governing the Bagley-Lower Pennsylvanian Gas Pool, Lea County, New Mexico.
- (3) That by Order No. R-1091 special rules and regulations were promulgated governing the Bagley-Upper Pennsylvanian Gas Pool, Lea County, New Mexico.
- (4) That the producing capacity of the wells in the Monument-McKee Gas Pool, the Bagley-Lower Pennsylvanian Gas Pool and the Bagley-Upper Pennsylvanian Gas Pool is in excess of the market demand for gas from these pools, and that for the purpose of preventing waste and protecting correlative rights, the subject pools should be prorated.
- (5) That the evidence adduced establishes that the proration formula for said pools should be based on straight acreage.

-2-

CASE No. 2142  
Order No. R-1670-D

(6) That special rules and regulations should be promulgated governing the drilling, spacing and proration of wells in each of the subject pools.

IT IS THEREFORE ORDERED:

(1) That Order Nos. R-1031 and R-1031-A, and R-1091 and R-1091-A be and the same are hereby superseded.

(2) That the vertical and horizontal limits of the Bagley-Lower Pennsylvanian Gas Pool and Bagley-Upper Pennsylvanian Gas Pool shall be as set forth in Order No. R-991 and as extended by subsequent orders.

(3) That the General Rules applicable to prorated gas pools in Southeast New Mexico, as set forth in Order No. R-1670, shall apply to the Monument-McKee Gas Pool, the Bagley-Upper Pennsylvanian Gas Pool, and the Bagley-Lower Pennsylvanian Gas Pool, unless in conflict with the Special Rules and Regulations for the subject pools as hereinafter set forth, in which event the Special Rules shall apply.

SPECIAL RULES AND REGULATIONS FOR THE  
MONUMENT-MCKEE GAS POOL

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Monument-McKee Gas Pool shall be 160 acres.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The first proration period for the Monument-McKee Gas Pool shall commence March 1, 1961, and shall terminate July 1, 1961. Subsequent proration periods shall be the six-month periods as provided in the General Rules.

SPECIAL RULES AND REGULATIONS FOR THE  
BAGLEY-LOWER PENNSYLVANIAN GAS POOL

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Bagley-Lower Pennsylvanian Gas Pool shall be 320 acres.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The first proration period for the Bagley-Lower Pennsylvanian Gas Pool shall commence March 1, 1961, and shall terminate July 1, 1961. Subsequent proration periods shall be the six-month periods as provided in the General Rules.



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CASE No. 2142

Order No. R-1670-D

SPECIAL RULES AND REGULATIONS FOR THE  
BAGLEY-UPPER PENNSYLVANIAN GAS POOL

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Bagley-Upper Pennsylvanian Gas Pool shall be 320 acres.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The first proration period for the Bagley-Upper Pennsylvanian Gas Pool shall commence March 1, 1961, and shall terminate July 1, 1961. Subsequent proration periods shall be the six-month periods as provided in the General Rules.

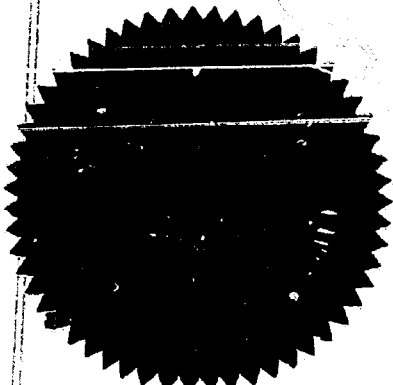
RULE 26: An oil well in the Bagley-Upper Pennsylvanian Gas Pool shall be defined as a well which produces hydrocarbons possessing a gravity of 55° API or less, corrected to 60° Fahrenheit.

RULE 27: An oil well in the Bagley-Upper Pennsylvanian Gas Pool shall have dedicated thereto a proration unit consisting of 40 acres, more or less, being a governmental quarter-quarter section.

RULE 28: No acreage shall be simultaneously dedicated to an Oil well and to a gas well in the Bagley-Upper Pennsylvanian Gas Pool.

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
*John Burroughs*  
JOHN BURROUGHS, Chairman

*Murray E. Morgan*  
MURRAY E. MORGAN, Member

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

eer/

# BAGLEY UPPER PENN.

## PRODUCTION MCF

SOLID BLACK INDICATES  
PRODUCTION 7-1-59 TO 7-1-60

STRIPED INDICATES  
PRODUCTION JULY, AUG., SEPT., 1960  
MCF = 24,000. 3 MCF = 1 Day

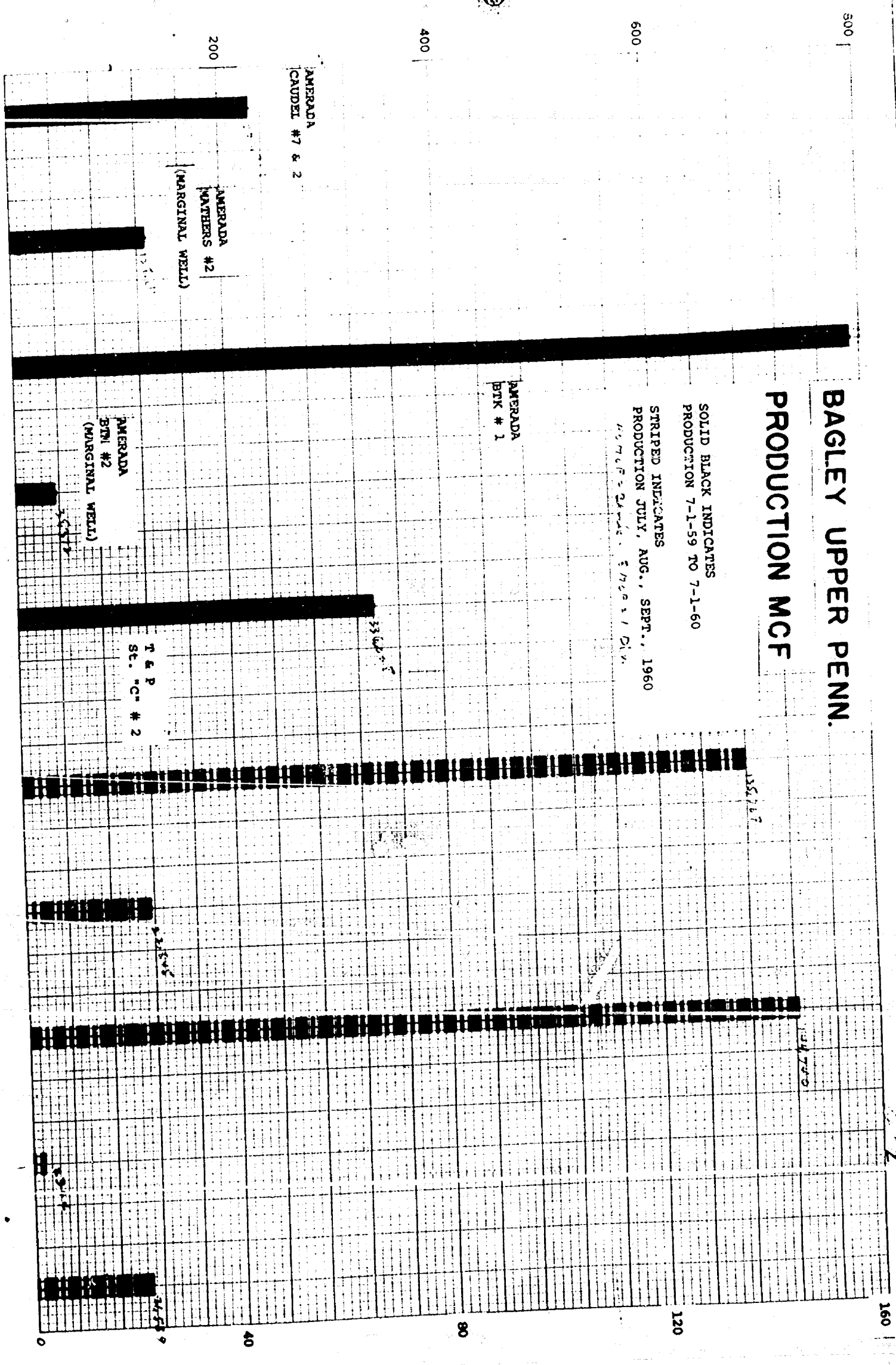
AMERADA  
BTK # 1

AMERADA  
CAUDEL #7 & 2

AMERADA  
WATERS #2  
(MARGINAL WELL)

AMERADA  
BTM #2  
(MARGINAL WELL)

T & P  
St. "C" # 2



700

560

420

280

140

AMERADA  
SHELL #1

AMERADA  
CAUDEL #7 & 2

AMERADA  
BTO #1

# BAGLEY LOWER PENN. PRODUCTION MCF

SOLID BLACK INDICATES  
PRODUCTION 7-1-59 TO 7-1-60

STRIPED INDICATES  
PRODUCTION JULY, AUG., SEPT., 1960



500

400

300

200

100

178,490

71,490

178,490

71,490

# MONUMENT M&KEE PRODUCTION MCF

SOLID BLACK INDICATES  
PRODUCTION 7-1-59 TO 7-1-60

STRIPED INDICATES  
PRODUCTION JULY, AUG., SEPT., 1960

AMERADA  
5-A

AMERADA  
5-N

SINCLAIR  
8-M

ANDERSON PR. CHARD  
BRITT A # 7-K  
PRODUCED 15:12 HCF  
IN JULY, 1960

50

100

150

200

DOCKET: REGULAR HEARING, WEDNESDAY, DECEMBER 14, 1960

Oil Conservation Commission - State Land Office Building, Santa Fe, New Mexico

- ALLOWABLE
- (1) Consideration of the oil allowable for January, 1961.
  - (2) Consideration of the allowable production of gas for January, 1961, for six prorated pools in Lea County, New Mexico. Consideration of the allowable production of gas for nine prorated pools in San Juan, Rio Arriba and Sandoval Counties, New Mexico, for January, 1961, and also presentation of purchasers' nominations for the six-month period beginning February 1, 1961 for that area.

CASE 2142: Application of the Oil Conservation Commission on its own motion to consider prorating the gas production from the Monument-McKee Gas Pool, the Bagley-Upper Pennsylvanian Gas Pool and the Bagley-Lower Pennsylvanian Gas Pool, all in Lea County, New Mexico.

CASE 1757: Application of J. C. Williamson for an order permanently establishing 80-acre proration units in the West White Ranch-Devonian Pool in Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order permanently establishing 80-acre proration units in the West White Ranch-Devonian Pool in Chaves County, New Mexico. Temporary 80-acre pool rules were established by Order No. R-1549.

CASE 2143: Application of Southern Union Gas Company for an amendment of Order No. R-1670-C to provide for 640-acre proration units in the Basin-Dakota Pool on a temporary basis and for permission to transfer allowables. Applicant, in the above-styled cause, seeks an amendment of the special rules and regulations governing the Basin-Dakota Pool, San Juan and Rio Arriba Counties, New Mexico, to provide for 640-acre proration units on a one-year temporary basis and for permission to transfer allowables in said pool for testing purposes.

CASE 2144: Southeastern New Mexico nomenclature case calling for an order creating new pools and extending existing pools in Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico:

- (a) Create a new oil pool for Wolfcamp production, designated as the Jenkins-Wolfcamp Pool, and described as:

TOWNSHIP 9 SOUTH, RANGE 34 EAST, NMPM  
Section 3: S/2

- (b) Create a new oil pool for Strawn production, designated as the Lusk-Strawn Pool, and described as:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM  
Section 19: NE/4

- (c) Create a new oil pool for Delaware production, designated as the Maroon Cliffs-Delaware Pool, and described as:

TOWNSHIP 20 SOUTH, RANGE 31 EAST, NMPM  
Section 30: SE/4

- (d) Create a new oil pool for Tansill production, designated as the Maroon Cliffs-Tansill Pool, and described as:

TOWNSHIP 20 SOUTH, RANGE 31 EAST, NMPM  
Section 30: SE/4

- (e) Create a new oil pool for Wolfcamp production, designated as the North Mescalero-Wolfcamp Pool, and described as:

TOWNSHIP 10 SOUTH, RANGE 32 EAST, NMPM  
Section 11: SW/4

- (f) Create a new oil pool for Queen production, designated as the Northeast Monument-Queen Pool, and described as:

TOWNSHIP 19 SOUTH, RANGE 37 EAST, NMPM  
Section 14: NE/4

- (g) Create a new oil pool for Delaware production, designated as the Paduca-Delaware Pool, and described as:

TOWNSHIP 25 SOUTH, RANGE 32 EAST, NMPM  
Section 15: W/2  
Section 16: E/2

- (h) Create a new gas pool for Pennsylvanian production, designated as the Sombrero-Pennsylvanian Gas Pool, and described as:

TOWNSHIP 16 SOUTH, RANGE 33 East, NMPM  
Section 12: W/2  
Section 13: NW/4

- (i) Create a new oil pool for Abo production, designated as the Vacuum-Abo Pool, and described as:

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM  
Section 4: NW/4

- (j) Extend the Atoka-Pennsylvanian Gas Pool, to include:

TOWNSHIP 18 SOUTH, RANGE 26 EAST, NMPM  
Section 23: W/2

- (k) Extend the Bluit-Pennsylvanian Pool, to include:

TOWNSHIP 8 SOUTH, RANGE 37 EAST, NMPM  
Section 29: NE/4  
Section 30: W/2 NE/4

- (l) Extend the Corbin-Abo Pool, to include:

TOWNSHIP 17 SOUTH, RANGE 33 EAST, NMPM  
Section 33: SW/4  
Section 34: SW/4

- (m) Extend the Drinkard Pool, to include:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM  
Section 17: NE/4 and N/2 SE/4

- (n) Extend the Empire-Abo Pool, to include:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM  
Section 26: S/2 NE/4  
Section 28: SE/4

- (o) Extend the Eumont Gas Pool, to include:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM  
Section 12: S/2 SE/4

- (p) Extend the Gladiola-Wolfcamp Pool, to include:

TOWNSHIP 12 SOUTH, RANGE 38 EAST, NMPM  
Section 18: SE/4

- (q) Extend the Justis-Blinebry Pool, to include:

TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM

Section 18: SW/4

Section 31: SW/4

- (r) Extend the Justis-Fusselman Pool, to include:

TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM

Section 30: SW/4

- (s) Extend the Justis Tubb-Drinkard Pool, to include:

TOWNSHIP 25 SOUTH, RANGE 37 EAST, NMPM

Section 26: SE/4 SE/4

Section 36: S/2 NE/4, SE/4, and SW/4

TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM

Section 19: W/2 SW/4

- (t) Extend the Maljamar Pool, to include:

TOWNSHIP 17 SOUTH, RANGE 33 EAST, NMPM

Section 21: NE/4

- (u) Extend the West Tonto Yates-Seven Rivers Pool, to include:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM

Section 13: SE/4

TOWNSHIP 19 SOUTH, RANGE 33 EAST, NMPM

Section 18: SW/4



BEFORE THE OIL CONSERVATION COMMISSION

OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION  
OF THE OIL CONSERVATION COMMISSION  
ON ITS OWN MOTION TO CONSIDER PRO-  
RATING THE GAS PRODUCTION FROM THE  
MONUMENT-MCKEE GAS POOL, THE BAGLEY-  
UPPER PENNSYLVANIAN GAS POOL AND THE  
BAGLEY-LOWER PENNSYLVANIAN GAS POOL,  
ALL IN LEA COUNTY, NEW MEXICO.

Case No. 2142

ENTRY OF APPEARANCE

Come now Kellahin & Fox, P. O. Box 1713, Santa Fe, New  
Mexico, and enter their appearance in the above captioned case  
in behalf of Amerada Petroleum Corporation in association with  
Mr. H. D. Bushnell, a member of the Oklahoma Bar.

By Jason W. Kellahin

J. O. SETH  
A. K. MONTGOMERY  
OLIVER SETH  
WM. FEDERICI  
FRANK ANDREWS  
FRED C. HANNAHS  
GEORGE A. GRAHAM JR

SETH, MONTGOMERY, FEDERICI & ANDREWS

ATTORNEYS AND COUNSELORS AT LAW

301 DON GASPAR AVENUE  
SANTA FE, NEW MEXICO

POST OFFICE BOX 828  
TELEPHONE YU 3-7315

December 14, 1960

New Mexico Oil Conservation Commission  
Santa Fe, New Mexico

Re: Case No. 2142


Gentlemen:

We hereby enter our appearance on behalf of  
El Paso Natural Gas Company in the above  
entitled case and will be associated therein  
with Mr. Ben Howell, Mr. Garrett Whitworth  
and other attorneys for the Company.

Very truly yours,

SETH, MONTGOMERY, FEDERICI & ANDREWS

By:



OS:dd

CLASS OF SERVICE

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# WESTERN UNION TELEGRAM

W. P. MARSHALL, PRESIDENT

SYMBOLS

DL=Day Letter

NL=Night Letter

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NEW MEXICO OIL CONSERVATION COMM=

POST OFC BOX 871 SANTA FE NMEX=

GENTLEMEN: SUBJECT: NEW MEXICO OIL CONSERVATION  
COMMISSION CASE 2142

THIS IS TO INFORM NEW MEXICO OIL CONSERVATION  
COMMISSION THAT APOC, OPERATOR OF THE BRITT "A" UNIT  
WELL NO. 7, RECOMMENDS (1) THAT 160-ACRE PRORATION UNITS  
BE ADOPTED FOR THE MONUMENT-MCKEE GAS POOL, LEA COUNTY  
NEW MEXICO, AND (2) THAT THE PRORATION OF GAS PRODUCTION  
THEREFROM BE BASED ENTIRELY ON SURFACE ACRES=

ANDERSON PRICHARD OIL CORP=

=2 142 7 1 160- 2.

RECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

472,490

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AMERADA  
S-N

SINCLAIR  
8-M

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2242

Commissioner EX. 3

Case 2142

TESTIMONY FOR UPPER AND LOWER BAGLEY AND MONUMENT-MCKEE

The Bagley Upper and Lower Pennsylvanian pools are now operating under rateable take Orders R-1091-A and R-1031-A respectively. In compliance with these orders the Commission has attempted to enforce rateable take by keeping a record of the allowable and production and informing the purchasers and operators periodically as to the status of the wells. This procedure has failed to accomplish the desired results.

It is my opinion that the only way to accomplish rateable take is to prorate and issue status reports in a proration schedule and to have proper rules for controlling overproduction. This is the subject matter of this case as it pertains to the Upper and Lower Bagley and Monument-McKee.

I have prepared exhibits to show the manner in which wells have been produced from the period of June 1, 1959 to July 1, 1960, and from July 1, 1960 to October 1, 1960.

*on a straight average (Show Exhibits)*  
*for*

*in order to prevent waste & protect capabilities*  
*of the*  
I recommend that the Commission prorate these three pools beginning March 1, 1961 and that the first proration period end July 1, 1961 so that future proration periods will coincide with other pools in Southeast New Mexico.

BEFORE THE  
OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO  
DECEMBER 14, 1960

IN THE MATTER OF:

CASE 2142: Application of the Oil Conservation Commission:  
on its own motion to consider prorating the  
gas production from the Monument-McKee Gas  
Pool, the Bagley-Upper Pennsylvanian Gas Pool  
and the Bagley-Lower Pennsylvanian Gas Pool,  
all in Lea County, New Mexico.

BEFORE:

Murray Morgan  
A. L. Porter

T R A N S C R I P T   O F   P R O C E E D I N G S

MR. PORTER: The Commission will take up next Case 2142.

MR. MORRIS: Case 2142. Application of the Oil Conserva-  
tion Commission on its own motion to consider prorating the gas pro-  
duction from the Monument-McKee Gas Pool, the Bagley-Upper Pennsyl-  
vanian Gas Pool and the Bagley-Lower Pennsylvanian Gas Pool, all in  
Lea County, New Mexico.

MR. PAYNE: Mr. Commissioner, we have one witness in this  
case, Mr. Utz. I would like to ask that he be sworn.

MR. PORTER: I would like to call for other appearances  
so if we have anyone else desiring to present testimony we can have  
the witnesses sworn at the same time.

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MR. CAMPBELL: I would like to enter an appearance. We have no witnesses. Enter an appearance on behalf of Texas Pacific Oil & Gas Company.

MR. KELLAHIN: Jason Kellahin, Kellahin & Fox, Santa Fe, representing Amerada Petroleum Corporation. I have an associate with me, Mr. H. D. Bushnel, a member of the Oklahoma Bar. It is not our present intention to offer any testimony, although if any of it corresponds, we may wish to do so.

MR. PORTER: You will have that opportunity, Mr. Kellahin.

MR. PAYNE: We also have a written appearance on Seth, Montgomery, Federeci, who have associated with them Ben Howell and Mr. Garrett Witworth from El Paso Natural Gas Company.

MR. MORRIS: Let the record show that Mr. Utz was previously been sworn.

ELVIS A. UTZ,  
called as a witness, having been previously duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. PAYNE:

Q Will the witness please state his name, by whom he is employed and what capacity?

A Elvis A. Utz, engineer with the New Mexico Oil Conservation Commission.

Q Mr. Utz, in connection with Case No. 2142, have you made



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a study concerning the gas takes in the Bagley-Lower Pennsylvanian Gas Pool, the Bagley-Upper Pennsylvanian Gas Pool, and Monument-McKee Gas Pool?

A Yes, sir, I have.

Q Mr. Utz, would you please explain briefly the system under which the pools are presently operating, and discuss whether, in your opinion, this system has proved to be satisfactory?

A The Bagley-Upper and Lower Pennsylvanian Gas Pools are now operating under ratable takes, Order R-1091-A and R-1031-A respectively. In compliance with these orders, the Commission has attempted to enforce ratable take by keeping a record of allowable and production, and informing the purchasers and operators periodically as to the status of these wells. This procedure has failed to accomplish the desired results. It is my opinion that the only way to accomplish ratable take is to prorate and issue status reports in proration schedules as to -- and to have proper rules for controlling overproduction. This is the subject matter of this case as it pertains to the Upper, Lower Bagley Pennsylvanian Pools, as well as the Monument-McKee Pools.

Q Mr. Utz, have you prepared Exhibits to show the manner in which the wells have been produced from the period of June 1st, 1959 to July 1st, 1960, and from July 1st, 1960 to October 1st, 1960?

A Yes, sir, I have. I have prepared bar graphs which show the production for the year's period, as stated, from 7/1/59 to





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7/1/60, as well as the last three months' production history that was available at the time these were made, which is July, August and September, 1960. In order to show how these wells were being produced up to the latest possible time, first, I have --

Q First, Mr. Utz, do you have copies of these Exhibits which we could distribute?

A I have copies which were distributed to the Commission, and I have copies that went out to the audience. There is one down there on this table, if it is not being used.

(Whereupon, Applicant's Exhibit No. 1 was marked for identification.)

Q All right. Mr. Utz, if you'll refer to Exhibit No. 1, would you please explain to the Commission what that Exhibit depicts?

A Exhibit No. 1 is a bar graph showing the production history for the past fifteen months of the Bagley-Lower Pennsylvanian Pool, the vertical is MCF total for each period, and, of course, the horizontal scale is per well. There are only three wells in this pool, and the production from these wells for the period, year's period ending 7/1/60 is as follows:

The Amerada Shell No. 1 is 279,186 MCF. The Amerada Caudel, 7 and 2. I might explain here that the Caudel No. 2 replaces the No. 7 on the same unit, so it is carried as one unit as actually the same well. That well produced 161, 192 and the Amerada Bto No. 1 produced 645,531. You will note from these figures that the



takes were substantially different, and, therefore, the takes were, in my opinion, unratable. During the last three months, July, August and September, '60, the Shell -- Amerada Shell No. 1, 60,814. Caudel No. 2, 124,362, and the Amerada BTO No. 1, 148,581. Of course, if it was a six months' proration period, these three wells would have an opportunity to come in better balance, but I merely show this to show that during the three months of the latest production history we have, the takes were not too ratable.

Q In your opinion, Mr. Utz, does this Exhibit substantiate your recommendation that the Bagley-Lower Pennsylvanian Gas Pool be prorated?

A In my opinion, that is the only way to enforce ratable take.

(Whereupon, Applicant's Exhibit No. 2 was marked for identification.)

Q Please proceed to Exhibit No. 2 and explain what that depicts.

A Exhibit No. 2 is the same type bar graph for the Bagley-Upper Pennsylvanian Pool. The vertical scale is again MCF for the total period shown, horizontal for each individual well. This well has -- this pool has five wells. Two of these wells were determined by marginal estimating, so the production shown by the Amerada Mathers No. 2 and the Amerada BTM No. 2 are considered to be -- all these wells are capable of producing, and so would not enter into a determination of ratable take. The three remaining

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wells, however, which are the Amerada Caudel No. 7 and No. 2, again, this was a well -- the No. 7 apparently played out, and the No. 2 took over the same unit dedication, the year's production ending 7/1/60 for this well was producing 229,918. The second well, the Amerada BTM No. 1 produced 794,586, and the third well, the Texas & Pacific State "C" No. 2, 336,008. The takes, as noted, are considerably different and, therefore, in my opinion, unratable.

The same picture for the three months from July, August and September, 1960, the Caudel, Amerada Caudel No. 2 produced 135,167. The BTM No. 1, 144,740, and the Texas & Pacific State "C" No. 2, 210,539. The takes from these three wells which have been, up to the present time anyway, non-marginal wells, are substantially different, so this shows that the takes are still somewhat unratable, as a matter of fact, considerably unratable for the past three months' production history.

Q Do you feel, then, Mr. Utz, by prorating this pool, the takes can be made more ratable?

A In my opinion, it can be made ratable as long as we only have one purchaser.

(Whereupon, Applicant's Exhibit No. 3 was marked for identification.)

Q All right. Please proceed to Exhibit No. 3 and explain to the Commission what that depicts.

A The Exhibit No. 3 is the same type of bar graph, vertical



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and horizontal scales being the same as the previous two, which depicts the production history for the like period of the Monument-McKee Pool. We have only three wells in this pool, but the takes have been rather erratic. The first well, the Amerada 5-A, produced during the year's period ending 7/1/60 165,315. The Amerada 5-N 166,048, and the Sinclair 8-M 472,490, or about two and eight-tenths times as much as the Amerada wells. The like information for the last available three months' production history was the Amerada 5-A 22,589,000, Amerada 5-N 23,335,000, and the Sinclair 8-M 178,499, which is 7.7 times as much as either of the Amerada wells. I just learned yesterday that there is a third well -- a fourth well in this pool which I had a record of that was Anderson-Pritchard "A" No. 7-K, which up until the time I made these charts had produced only 1552 in the month of July, 1960. However, my information from the telephone conversation with Anderson-Pritchard yesterday indicates this well is now producing almost as much, if not as much, as the Sinclair well.

Q Mr. Utz, is there also only one purchaser in the Monument-McKee Pool?

A No, sir. There are two purchasers in the Monument-McKee. I believe one purchaser is connected to the Amerada wells, and the other purchaser is connected to the Sinclair and Anderson-Pritchard wells.

Q Do you feel, Mr. Utz, by prorating the Monument-McKee Pool more ratable takes can be accomplished than is presently being



accomplished?

A Mr. Payne, that has been previously true in other pools where we have two purchasers.

Q Mr. Utz, in view of your studies and Exhibits, what are your recommendations to the Commission in regard to these three pools?

A I recommend that in order to prevent waste and protect correlative rights that the Commission prorate these three pools on a straight acreage basis beginning March the 1st, 1961, and that the first proration period end July 1, 1961 so that future proration periods will coincide with the proration period of other pools in Southeast New Mexico.

Q Mr. Utz, what is your reason for recommending that these pools be prorated on the straight acreage basis?

A In the first place, these are very small pools, the largest pools having five wells. Reserve information is rather difficult to come by, and the deliverabilities would appear to be rather consistent except for the two marginal wells in the Upper Bagley Pennsylvanian. I just don't believe that the pools are large enough to justify anything but a straight acreage formula.

Q Mr. Utz, you are undoubtedly aware we have special rules for both the Bagley Upper Pennsylvanian and Bagley-Lower Pennsylvanian. You are not recommending any change in those, any change other than that to prorate these particular pools?

A That's correct. I would recommend that Order R-1091-A

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and 1031-A be superceded and all three of these pools be incorporated under R-1607.

Q That is an order which deals with all prorated gas pools in New Mexico?

A That's correct.

Q If I understand you correctly, you are recommending that the initial gas proration period commence March the 1st and end July the 1st, 1961 --

A That's right.

Q -- so that the six months' prorated period is following from July the 1st and would coincide with the other prorated gas pools in that area?

A That's correct.

Q Do you have anything further you would like to present?

A I don't believe I have anything.

MR. PAYNE: I would like to offer Oil Conservation Commission's Exhibits 1 through 3.

MR. PORTER: Without objection, these Exhibits will be admitted.

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

MR. PORTER: Does anyone have any questions? The witness may be excused.

(Witness excused)

MR. PORTER: Anyone desire to present testimony? Do you

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have any statements to make to the Commission?

MR. ANDERSON: R. M. Anderson, Sinclair. We have a well in the Monument-McKee Pool; we wish to concur with Mr. Utz' recommendations concerning gas proration in the Monument-McKee Gas Pool.

MR. PORTER: Mr. Bushnell.

MR. BUSHNELL: Amerada concurs in the recommendations made by Mr. Utz.

MR. ROBINSON: J. E. Robinson, Texaco, Inc. Texaco has the fifth well in the Monument-McKee, and we have finalized the contract with the third purchaser for this field and we concur with the recommendation made by the Commission.

MR. PORTER: Three purchasers and five wells. Anyone else want to make a statement?

MR. PAYNE: Mr. Commissioner, we received the following communication from Anderson-Pritchard Oil Corporation. This is to inform the New Mexico Oil Conservation Commission that Anderson-Pritchard's operator of the Britt "A" unit Well No. 7 recommends (1) that 160-acre proration units be adopted for the Monument-McKee Gas Pool, and (2) that the proration of gas production therefrom be based entirely on surface acreage.

MR. PORTER: Nothing further to be offered in this case, the Commission will take it under advisement and have a short recess.

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STATE OF NEW MEXICO )  
 ) ss  
 COUNTY OF BERNALILLO )

I, LLEWELYN NELSON, Court Reporter, in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in machine shorthand and reduced to typewritten transcript under my personal supervision, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this, the 20th day of January 1961, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Llewellyn Nelson  
 NOTARY PUBLIC

My Commission expires:

June 14, 1964

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ALBUQUERQUE, NEW MEXICO





DRAFT

OEP/esr  
December 16

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. 2142  
Order No. R-1670-D

12/16/60  
12-19-60

APPLICATION OF THE OIL CONSERVATION  
COMMISSION ON ITS OWN MOTION TO  
CONSIDER PRORATING THE GAS PRODUCTION  
FROM THE MONUMENT-MCKEE GAS POOL, THE  
BAGLEY-UPPER PENNSYLVANIAN GAS POOL,  
AND THE BAGLEY-LOWER PENNSYLVANIAN GAS  
POOL, ALL IN LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on  
December 14, 1960, at Santa Fe, New Mexico, before the Oil Conser-  
vation Commission of New Mexico, hereinafter referred to as the  
"Commission."

NOW, on this \_\_\_\_\_ day of December, 1960, the Commission,  
a quorum being present, having considered the testimony presented  
and the exhibits received at said hearing, 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 by Order No. R-1031 special rules and regulations  
were promulgated governing the Bagley-Lower Pennsylvanian Gas Pool,  
Lea County, New Mexico.

(3) That by Order No. R-1091 special rules and regulations  
were promulgated governing the Bagley-Upper Pennsylvanian Gas Pool,  
Lea County, New Mexico.

(4) That the producing capacity of the wells in the Monument-  
McKee Gas Pool, the Bagley-Lower Pennsylvanian Gas Pool and the  
Bagley-Upper Pennsylvanian Gas Pool is in excess of the market  
demand for gas from these pools, and that for the purpose of  
preventing waste and protecting correlative rights, the subject  
pools should be prorated, ~~on a straight acreage basis.~~

(5) That the evidence adduced establishes  
that that the proration formulae for said  
pools should be based on the right acreage.

-2-  
CASE No. 2142  
Order No. R-1670-D

(5) That special rules and regulations should be promulgated governing the drilling, spacing and proration of wells in each of the subject pools.

IT IS THEREFORE ORDERED:

(1) That Order Nos. R-1031 and R-1091 be and the same are hereby superseded, <sup>(2)</sup> That the vertical and horizontal limits of the Bagley-Lower Pennsylvanian Gas Pool and Bagley-Upper Pennsylvanian Gas Pool be and the same are hereby superseded. <sup>(3)</sup> That the General Rules applicable to prorated gas pools in Southeast New Mexico, as set forth in Order No. R-1670, shall apply to the Monument-McKee Gas Pool, the Bagley-Upper Pennsylvanian Gas Pool, and the Bagley-Lower Pennsylvanian Gas Pool, unless in conflict with the Special Rules and Regulations for the subject pools as hereinafter set forth, in which event the Special Rules shall apply.

SPECIAL RULES AND REGULATIONS FOR THE  
MONUMENT-MCKEE GAS POOL

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5 (A): A standard gas proration unit in the Monument-McKee Gas Pool shall be 160 acres.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The first proration period for the Monument-McKee Gas Pool shall commence March 1, 1961, and shall terminate July 1, 1961. Subsequent proration periods shall be the six-month periods as provided in the General Rules.

SPECIAL RULES AND REGULATIONS FOR THE  
BAGLEY-LOWER PENNSYLVANIAN GAS POOL

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5 (A): A standard gas proration unit in the Bagley-Lower Pennsylvanian Gas Pool shall be 320 acres.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The first proration period for the Bagley-Lower Pennsylvanian Gas Pool shall commence March 1, 1961, and shall terminate July 1, 1961. Subsequent proration periods shall be the six-month periods as provided in the General Rules.

SPECIAL RULES AND REGULATIONS FOR THE  
BAGLEY-UPPER PENNSYLVANIAN GAS POOL

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5 (A): A standard gas proration unit in the Bagley-Upper Pennsylvanian Gas Pool shall be 320 acres.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The first proration period for the Bagley-Upper Pennsylvanian Gas Pool shall commence March 1, 1961, and shall terminate July 1, 1961. Subsequent proration periods shall be the six-month periods as provided in the General Rules.

RULE 26: An oil well in the Bagley-Upper Pennsylvanian Gas Pool shall be defined as a well which produces hydrocarbons possessing a gravity of 55° API or less, corrected to 60° Fahrenheit.

RULE 27: An oil well in the Bagley-Upper Pennsylvanian Gas Pool shall have dedicated thereto a proration unit consisting of 40 acres, more or less, being a governmental quarter-quarter section

RULE 28: No acreage shall be simultaneously dedicated to an oil well and to a gas well in the Bagley-Upper Pennsylvanian Gas Pool.

DONE at Santa Fe, New Mexico, on the day and year herein-  
above designated.