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UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION
OF THE

MYERS LANGLIE-MATTIX UNIT

LEA COUNTY, NEW MEXICO

EXHIBIT

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UNIT AGREEMENT
MYERS LANGRISH-MATLIK UNIT
LEA COUNTY, NEW MEXICO

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MYERS LANGLIE-MATTIX UNIT

LEA COUNTY, NEW MEXICO

State of New Mexico No. _____

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

WITNESSETH:

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943, as amended by Sec. 1 of Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 39, N.M.S. 1953 anno.) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws of 1943, as amended by Sec. 1, Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 41, N.M.S. 1953 anno.) to amend, with the approval of the lessee, any oil and gas lease embracing State lands so that the length of the term of said lease will coincide with the term of an agreement as to the unitized development and operation of State lands; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Art. 111, Chap. 65, Vol. 9, Part 2, New Mexico Statutes, 1953 Annotated) to approve this agreement, and the conservation provisions hereof; and

WHEREAS, the Mineral Leasing Act of February 25, 1920 (41 Stat. 437, as amended 30 U.S.C. Sections 181 et seq.) authorizes Federal lessees and their representatives to unite with each other or jointly or separately with others in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field or like area or any part thereof for the purpose of more properly conserving the

natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the parties hereto hold sufficient interests in the Myers Langlie-Mattix 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 enable institution and consummation of secondary recovery operations, conserve natural resources, to prevent waste and secure the 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 interest in the "Unit Area" and the "Unitized Formation" lying thereunder (as those terms are defined hereinafter), and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder and valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of 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.

SECTION 2. UNIT AREA AND DEFINITIONS. For the purpose of this agreement, the following terms and expressions as used herein shall mean:

(a) "Unit Area" is defined as the area described by tracts in Exhibit "B" and depicted on Exhibit "A" attached hereto, containing 9,923.68 acres more or less, or to which it may be extended as herein provided.

(b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(c) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.

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(d) "Director" is defined as the Director of the United States Geological Survey.

(e) "Secretary" is defined as the Secretary of the Interior of the United States of America or any other person duly authorized to exercise powers vested in that office.

(f) "Department" is defined as the Department of the Interior of the United States of America.

(g) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey having jurisdiction over oil and gas operation on Federal lands in the Unit Area.

(h) "Unitized Formation" means that interval underlying the Unit Area the vertical limits of which extend from a point 100 feet above the base of the Seven Rivers formation to the base of the Queen formation; said interval having been heretofore found to occur in Texas Pacific Oil Company's Blinbry "B" No. 1 well (located 2310 feet from the west line and 330 feet from the north line of Section 34, Township 23 South, Range 37 East, Lea County, New Mexico) at an indicated depth interval of 3168 feet to 3570 feet, as recorded on the Schlumberger Electrical log Run No. 1 taken December 26, 1952, said log being measured from a derrick floor elevation of 3300 feet above sea level.

(i) "Unitized Substances" means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within and produced from the Unitized Formation underlying the lands unitized hereunder.

(j) "Tract" is defined as each parcel of land described as such and given a tract number in Exhibit "B".

(k) "Tract Participation" is defined as the percentage of Unitized Substances to be allocated to a Tract qualified for participation under this agreement, as shown on Exhibit "C".

(l) "Unit Participation" of each Working Interest Owner means the sum of the products obtained by multiplying the Working Interest share of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

(m) "Working Interest" is defined as the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil or gas lease, or otherwise, and

includes any interest which is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing operations.

(n) "Working Interest Owner" is defined as and shall mean any party hereto owning a Working Interest. The owner of oil and gas rights which are free of leases or other instruments conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

(o) "Record Owner" is defined as the holder of the record title to a lease covering Federal lands according to the applicable records of the Department of the Interior of the United States of America.

(p) "Royalty Interest" or "Royalty" is defined as an interest other than a Working Interest in or a right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contract, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(q) "Royalty Owner" is defined as and shall mean the owner of a Royalty Interest.

(r) "Voting Interest" of each Working Interest Owner, unless otherwise specifically defined herein, shall equal its Unit Participation in effect at the time a vote is taken.

(s) "Usable Well" shall mean a well which, in accordance with good oil field practice, is adequately equipped and in condition with casing in good repair (hereinafter referred to as "Usable Condition") to permit production of Unitized Substances from the Unitized Formation to the surface by conventional production methods.

(t) "Unit Operating Agreement" is defined as and shall mean any agreement or agreements (whether one or more entered into separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, *infra*, and shall be styled "Unit Operating Agreement, Myers Langlie-Mattix Unit, Lea County, New Mexico".

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(u) "Unit Manager" is defined as the person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8 hereof.

SECTION 3. EXHIBITS. Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of Tracts and leases in said Unit 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 comprising each Tract and the percentage ownership of each Working Interest Owner. Exhibit "C" attached hereto is a schedule showing the participation of each Tract during Phases I and II. 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.

Whenever reference herein or in the Unit Operating Agreement is made to an Exhibit, the reference is to the Exhibit as originally attached or, if revised, to the latest approved revision.

The description and ownership of the respective Tracts have been established by using the best information available. If it subsequently appears that clerical errors, including errors in Tract Ownership or mechanical miscalculations have been made, Unit Operator shall revise the Exhibits to conform with the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participations. Errors and miscalculations discovered prior to the effective date of this agreement shall be corrected by Unit Operator in the first revision of Exhibits following the effective date and said first revisions shall be effective as of the effective date of this agreement. The correction of any error other than the correction of a clerical or mechanical error shall be made by Unit Operator only after first having obtained approval of Working Interest Owners, the Supervisor and the Commissioner.

Exhibits A, B, and C shall be revised by Unit Operator whenever changes render such revision necessary or when requested by the Supervisor or the Commissioner. If an Exhibit is revised pursuant to this agreement, Unit Operator shall certify and file the required number of copies of the revised

Exhibit with the Commissioner and the Supervisor, and one (1) copy for record with the County Clerk, Lea County, New Mexico. Except as specified above, a revised Exhibit shall become effective on such date as may be determined by the Working Interest Owners with the approval of the Supervisor and the Commissioner, and shall be set forth on said revised Exhibit.

SECTION 4. EXPANSION. The Unit Area may, when practicable, be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to commit such Tract or Tracts to this Agreement, shall file an application therefor with Unit Operator requesting admission.

(b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the recommended Tract Participation to be assigned to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if three or more Working Interest Owners having in the aggregate ~~ninety percent (90%)~~ Phase I Unit Participation have agreed to inclusion of such tract or tracts in the Unit Area, then Unit Operator shall:

(1) After preliminary concurrence by the Director and the Commissioner prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional tract or tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof; and

(2) Deliver copies of said notice to the Commissioner, the Supervisor, each Working Interest Owner and to each lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Commissioner and Supervisor the following: (a) Evidence of mailing or delivering copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the participation requirements of

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Section 15, Tracts Qualified for Participation, hereof; and (j) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and approval by the Commissioner, the Commission, and the Supervisor, become effective as of the date prescribed in the notice thereof, preferably the first day of a month subsequent to the date of notice or on such other date as may be agreed upon by the Working Interest Owners and approved by the Commissioner, the Commission, and the Supervisor. The revised Tract Participations of those Tracts which were committed prior to such expansion shall remain in the same ratio one to another.

SECTION 5. 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 "unitized land" and Unitized Substances are unitized under the terms of this agreement. Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as defined under Section 2 (h).

SECTION 6. UNIT OPERATOR. Skelly Oil Company is hereby designated as Unit Operator, and by signing this agreement as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, 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 the Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Commissioner and the Supervisor, and until all unit wells are placed in a satisfactory condition for suspension, abandonment, or continued operations, as required by the Supervisor as to Federal lands and the Commissioner as to State lands, unless a new Unit

Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by three (3) or more Working Interest Owners having in the aggregate eighty percent (80%) or more of the Phase II Unit Participation remaining after excluding the Phase II Unit Participation of the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and the Supervisor.

In all such instances of effective resignation or removal, until a successor to Unit Operator is selected and approved as hereafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this agreement shall not terminate its rights, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, books and records, materials, appurtenances and any other assets, used in connection with the unit operations and owned by the Working Interest Owners to the new duly qualified successor Unit Operator or to the Unit Manager 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 the removal of any material, equipment, and appurtenances needed for the preservation of any wells.

Nothing herein contained shall be construed to release, relieve or discharge a Unit Operator who resigns or is removed hereunder from any liability for default by it hereunder or from duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. 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

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approved by the Supervisor and the Commissioner. If no successor Unit Operator is selected as herein provided, the Commissioner or the Director, at his election, may declare this agreement terminated.

In selecting a successor Unit Operator the affirmative vote of three (3) or more Working Interest Owners owning a total of sixty-five percent (65%) or more of the Phase II Unit Participation shall prevail, provided that if any one Working Interest Owner has a Phase II Unit Participation greater than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient if the affirmative vote represents a majority of the voting interest, and such affirmative vote shall be controlling on all parties. If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of three or more Working Interest Owners owning a majority of the Phase II voting interest remaining after excluding the voting interest of Unit Operator so removed.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.

Costs and expenses incurred by the Unit Operator in conducting unit operations hereunder shall be apportioned among, borne and paid by the Working Interest Owners in accordance with the Unit Operating Agreement. The 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 the 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 agreement or to relieve the Unit Operator of any right or obligation established under this agreement, and in case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner and three true copies thereof shall be filed with the Supervisor prior to approval of this agreement.

SECTION 10. 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. Upon request, acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this agreement, various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized Land as now or hereafter constituted. Therefore, for all purposes of this agreement any and all such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, subject to the limitations contained in Section 10, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this agreement, and it is agreed that any and all such equipment and personal property shall be and remain personal property for all purposes.

SECTION 12. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that the object and purpose of this agreement is to formulate and to put into effect a secondary recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Supervisor, the Commissioner and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil and any one or more other substances or combination of substances whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of

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good geologic and petroleum engineering practices and conservation methods.

The parties hereto, subject to prior rights, if any, grant to Unit Operator the use of brine or non-potable water or both from any formation in and under the Unitised Land for injection into the Unitised Formation. After commencement of secondary operations, Unit Operator shall furnish the Commissioner and the Supervisor monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Supervisor shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto deemed necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any revision of the approved plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commission, the Commissioner and the Supervisor.

A plan of operation shall be filed with the Supervisor and the Commissioner concurrently with the filing of this unit agreement for final approval. Said plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor and the Commissioner may determine to be necessary for timely operation consistent herewith. Upon approval of this agreement and the aforementioned plan by the Supervisor and the Commissioner, said plan and all subsequently approved plans shall constitute the operation 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 like approval a plan of an additional specified period of operation.

Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence operations for the secondary recovery of the unitised substances from the unit area within one year after the effective date of this agreement and any extension thereof approved by the Supervisor and the Commissioner, this agreement shall terminate automatically as of the date of default.

SECTION 13. USE OF SURFACE. The parties hereto, to the extent of their rights and interest, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the Unit Area as may reasonably be necessary for unit operations, including the free use of water from the Unit Area for unit operations, except water from any well, lake, pond or

irrigation ditch of a surface owner, provided that, nothing herein shall be construed as leasing or otherwise conveying to Working Interest Owners a site for a water, gas injection, processing or other plant or camp site. Working Interest Owners shall pay the owner for damages to growing crops, timber, fences, improvements, and structures on the Unit Area that result from Unit Operations.

SECTION 14. TRACT PARTICIPATION. Participation of each Tract is shown in Exhibit "C" and has been computed in accordance with the following:

(a) Phase I Participation. Phase I begins the effective date hereof and continues until the first day of the month next following the date that the cumulative volume of oil produced after January 1, 1969, from the Unitized Formation underlying all of the Tracts in the Unit Area totals 299,013 barrels. The Tract Participation of each Tract during Phase I, shown on Exhibit "C", is based upon the following formula:

Tract Participation Percentage

Phase I equals

$$100 \frac{A}{B}$$

Where: "A" equals total income from oil and gas produced from such Tract from the Unitized Formation during the period January 1, 1968, through December 31, 1968.

"B" equals the summation of the total income from oil and gas produced from all qualified Tracts from the Unitized Formation during the period January 1, 1968, through December 31, 1968.

(b) Phase II Participation. Phase II shall begin the first day of the month next following the date on which the last of the 299,013 barrels referred to in (a) above is produced and shall continue for the remainder of the term of this agreement. The Participation of each Tract during Phase II, shown on Exhibit "C", is based upon the following formula:

Tract Participation Percentage,

Phase II equals

$$85 \frac{X}{Y} \text{ plus } 10 \frac{Z}{Y} \text{ plus } 5 \frac{1}{Y}$$

Where: "X" equals the estimated quantity of oil ultimately recoverable from the Unitized Formation by primary recovery operations credited to each Tract.

"Y" equals the summation of the estimated quantity of oil ultimately recoverable from the Unitized Formation by

primary recovery operations credited to all qualified Tracts.

"G" equals the cumulative oil produced from the Unitized Formation underlying each Tract as of July 1, 1966.

"H" equals the summation of the cumulative oil produced from the Unitized Formation underlying all qualified Tracts as of July 1, 1966.

"I" equals the number of acres contained in each Tract.

"J" equals the summation of the number of acres contained in all qualified Tracts.

If less than all Tracts within the Unit Area qualify for participation hereunder as of the effective date hereof, Unit Operator shall file with the Supervisor, the Commissioner and the Commission a schedule showing the qualified Tracts as of said effective date, which schedule shall be designated Revised Exhibit C and considered for all purposes as a part of this agreement. Said revised Exhibit C shall set forth opposite each qualified Tract the revised Tract Participation therefor which shall be calculated by using the same factors and formula which were used to arrive at the Tract Participations set out in Exhibit C attached hereto, but applying the same only to the qualified Tracts. Said revised Exhibit C, upon approval by the Supervisor and the Commissioner, shall supersede, effective as of the effective date hereof, the Exhibit C attached hereto.

The Tract Participations shown on Exhibit C attached hereto, or as may be shown on the Revised Exhibit C as above provided, shall govern the allocation of unitized substances on and after the effective date of this Unit Agreement, and until the Tract Participations are revised pursuant to this agreement and such revised Tract Participations are approved by the Supervisor and the Commissioner.

(c) Within Sixty (60) days after the requirements for commencement of Phase II have been met, the Operator will notify the Oil and Gas Department of the New Mexico State Land Office of such conversion to Phase II.

SECTION 13. TRACTS QUALIFIED FOR PARTICIPATION. On and after the effective date hereof, and until expansion as provided in Section 4 hereof, the tracts within the Unit Area which shall be entitled to participation (as provided in Section 14, Tract Participation, hereof) in the production of Unitized Substances shall be composed of the Tracts shown on Exhibit A and listed in Exhibit "B" which qualify as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty or Record Owners owning seventy-five percent (75%) or more of the Royalty or Record Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty or Record Owners owning less than seventy-five percent (75%) of the Royalty and Record Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in such Tract have joined in a request for the qualification of such Tract, and

(ii) Eighty percent (80%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of paragraph (a) hereof have voted in favor of qualifying such Tract.

For the purpose of this paragraph (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Participation in all Tracts qualifying under paragraph (a) bears to the total Phase II Participation of all Working Interest Owners in all Tracts qualifying under paragraph (a).

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty and Record Interest therein which is committed hereto and, further, as to which:

(i) The Working Interest Owner operating such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for qualification of such Tract and at least eighty-five percent (85%) of such parties have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit, their successors and assigns, against all claims and demands which arise out of the qualification of such Tract which may be made by the owners of interests in such Tract who are not parties hereto; and

(ii) Eighty percent (80%) of the combined voting interests of

Working Interest Owners in all Tracts meeting the requirements of paragraphs (a) and (b) have voted in favor of the qualification of such Tract and acceptance of the indemnity agreement.

For the purpose of this paragraph (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Participation in all Tracts qualifying under paragraphs (a) and (b) bears to the total Phase II Participation of all Working Interest Owners in all Tracts qualifying under paragraphs (a) and (b). Upon the qualification of a Tract, the Unit Participation which would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to the indemnity agreement, in proportion to their respective Working Interests in the Tract.

SECTION 16. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for pressure maintenance in accordance with a plan of operation approved by the Supervisor and the Commissioner, or unavoidably lost) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit C. The amount of Unitized Substances so allocated to each tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each such Tract shall be distributed among, or accounted for to, the parties executing, consenting to or ratifying this agreement and entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tracts, or in the proceeds thereof, had this agreement not been entered into, and with the same legal force and effect.

No Tract qualified for participation under this agreement shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from said Tract.

If the Working Interest and/or the Royalty Interest in any Tract is divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Unitized Substances allocated to such Tract shall, in the absence of a recordable instrument executed by the owners of such interest, furnished to Unit Operator and fixing the divisions of ownership, be divided among the owners of interest in such parcels or portions in proportion to the number of surface acres in each parcel or portion.

The Unitized Substances allocated to each Tract shall be delivered in kind to the parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each of the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 14, Royalty Settlement, hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation currently as and when produced, Unit Operator, in order to avoid curtailing Unit operations, may sell or otherwise dispose of such production to itself or to others on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned or to a party designated in writing by such Working Interest Owner. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's

share of gas production without first giving such Working Interest Owner sixty (60) days notice of such intended sale.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all Royalty due under the lease or leases covering said Tract, and each such party shall hold each other party hereto harmless against all claims, demands and causes of action for Royalty due under the lease or leases covering said Tract.

SECTION 17. BALANCING OF PRODUCTION. Unit Operator shall make a proper and timely gauge of all lease and other tanks located on each committed Tract in order to ascertain the amount of merchantable oil in such tanks, above the pipeline connection, on the effective date hereof. All such oil which is a part of the prior allowable of the well or wells from which the same was produced shall be and remain the property of the Owners entitled thereto as if this agreement had not been entered into and such Owners shall promptly remove same. Any such oil not so removed may be sold by the Unit Operator for the account of such Owners, subject to payment of all Royalties due under the terms and provisions of the applicable lease or leases and other contracts. ~~All oil which is in excess of the prior allowable for the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any tract of unitized land is overproduced with respect to the allowable of the well or wells on that Tract and if the amount of such over-production has been sold or otherwise disposed of, such over-production shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof, and the amount thereof charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.~~

SECTION 18. ROYALTY SETTLEMENT. The State of New Mexico and the United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the Unitized Substances produced from any Tract unitized hereunder, shall hereafter be entitled to take in kind their share of the Unitized Substances allocated to such

Tract, and Unit Operator 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 Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms 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 rate 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 oil production per well and/or the average gravity of such oil production and/or the daily average gas production per lease, such average production or average gravity shall be determined in accordance with the operating regulations as though the unitized lands were a single consolidated lease.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline run per well from a Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the production allocated each Tract during such period of time by the number of wells located thereon capable of producing as of the effective date hereof, provided, however, any Tract without a producible well on said effective date shall, for the purposes herein contained, be considered as having one such well thereon.

All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts qualified hereunder, in lieu of actual production from such Tract or Tracts.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that ratifies this agreement represents and warrants that he is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as his interest appears in Exhibit "B" attached hereto. If the title to a Royalty Interest fails but the lands to which it relates remain subject hereto, the party whose title failed shall not be entitled to share hereunder with respect to such interest.

SECTION 19. 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 for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico. Rental or minimum royalty for lands of the United States of America subject to this agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 20. 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 Federal and State laws and regulations.

SECTION 21. DRAINAGE. The Unit Operator shall take such measures as the Supervisor or the Commissioner deems appropriate and adequate to prevent drainage of the Unitized Substances from the Unitized Lands by wells on land not subject to this agreement.

SECTION 22. 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 on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner,

respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty and royalty requirement of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement.

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 separately owned Tract committed to this agreement, regardless of whether there is any development of any particular Tract of the Unitized Land.

(b) Drilling and producing operations performed hereunder upon any Tract of Unitized Land 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 Commissioner and the Supervisor shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of Unitized Land. A suspension of drilling or producing operations on specified lands shall be applicable only to such lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for Unitized Substances, 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, as to the land committed so long as such lease remains subject hereto.

(e) Any Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such land remains committed hereto.

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

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Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such lease shall apply separately as to such segregated portions commencing as of the effective date hereof. 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 (whether within or without the Unit Area), if oil or gas are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement 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 therein, any such lease shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of Unitized Substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as Unitized Substances are produced in paying quantities from any portion of said lands.

(h) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(j) of the Mineral Leasing Act as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the 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."

SECTION 13. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interests until this agreement terminates, and any grant, transfer, or conveyance of interest

in land or leases subject hereto shall be and hereby is ^{BOOK 312 PAGE 475} assumed by the grantee, transferee, or other successor in interest. No assignment or transfer of ~~any Working 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; and no assignment or transfer of any Royalty Interest shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, photostatic or certified copy of the instrument of transfer.

SECTION 24. EFFECTIVE DATE AND TERM. This agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of the first day of the calendar month next following:

(a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners owning tracts with a combined Phase II Unit Participation of at least eighty-five percent (85%), and the execution or ratification of this agreement by Royalty and Record Owners owning interests in tracts having a combined interest of at least sixty-five percent (65%) of the Royalty and Record Interest in the Unit Area, calculated on the basis of Phase II Unit Participation; and

(b) The approval of this agreement by the Commissioner, the Supervisor, and the Commission;

(c) If (a) and (b) above are not accomplished on or before January 1, 1974, this agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners owning tracts with a combined Phase II Unit Participation of at least eighty percent (80%), and the Working Interest Owners owning tracts with a combined Phase II Unit Participation of at least sixty-five percent (65%) committed to this agreement have decided to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a) and (b) are not accomplished on or before said extended expiration date, this agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force and effect.

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Unit Operator shall file at least one counter part of this agreement for record in the office of the County Clerk of Lea County, New Mexico. Within thirty (30) days after the effective date of this agreement, Unit Operator shall file for record in each office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has become effective according to its terms and stating further the effective date.

The term of this agreement shall be for and during the time that Unitized Substances are or can be produced in quantities sufficient to repay the cost of producing same from the Unitized Land and should production cease so long thereafter as Drilling, reworking or other operations to restore production (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and should production be restored so long thereafter as such Unitized Substances can be produced as aforesaid.

This agreement may be terminated at any time with the approval of the Commissioner and the Supervisor by Working Interest Owners owning tracts with a combined Phase II Unit Participation of at least seventy five percent (75%). Notice of any such termination shall be given by Unit Operator to all parties hereto.

Upon termination of this agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts.

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

SECTION 25. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served

thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately-owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

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

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

SECTION 27. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner, the Department, and the Commission, and to appeal from any order issued under the rules and regulations of the Commissioner, the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner, the Department, or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 28. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereto or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 29. 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 Federal or State law or rule or regulation 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.

SECTION 30. WAIVER OF RIGHTS TO PARTITION. Each party hereto covenants that, during the existence of this agreement, it will not resort to any action to partition the Unitized Formation or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

SECTION 31. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue secondary recovery operations 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 agency, unavoidable accident, 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 matters herein enumerated or not. Nothing herein shall be construed to require Unit Operator, against its will, to settle strikes.

SECTION 32. LOSS OF TITLE. In the event title to any tract of unitized land shall fail so as to render the tract not subject to this agreement and the true owner cannot be induced to join this Agreement, such Tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. ~~If a Tract ceases to be subject to this agreement because of the failure of title, Unit Operator, subject to Section 16, Tract Participation, hereof, shall recompute the Tract Participation of each of the Tracts remaining qualified for participation and shall revise Exhibit "C" accordingly. The revised exhibit shall be effective as of the first day of the calendar month in which such failure of title is finally determined.~~

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of the failure of title shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains qualified, the parties whose title failed shall not be entitled to share hereunder with respect to such interest. In the

event of a title dispute as to any Royalty, Working Interest or other interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State or Federal land or leases, no payments of funds due the State of New Mexico or the United States of America shall be withheld, but such funds shall be deposited as directed by the Commissioner or the Supervisor (as the case may be), 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.

SECTION 33. JOINDER IN DUAL CAPACITY. Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party not specifically excluded by the terms of the joinder instrument, provided said party also executes the Unit Operating Agreement as owner of a Working Interest.

SECTION 34. NONJOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a qualified Tract 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 Supervisor, the Commissioner and the Unit Operator prior to the approval of this agreement by the Supervisor and the Commissioner. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to this agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this agreement.

Any oil or gas interest in the Unitized Formation not committed hereto prior to the effective date of this agreement may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 15 (Tracts Qualified for Participation) hereof, at any time during a period of six months after the effective date of this agreement on the same basis of participation as provided in said Section 15, by the owner or owners thereof subscribing, ratifying, or consenting in writing to

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this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after such six months the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners owning tracts with Phase II Participation of at least eighty percent (80%) and approval of the Supervisor and the Commissioner, provided that the Tract participation of each previously qualified Tract shall remain in the same ratio one to the other. Such joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by his execution or ratification of this agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner.

Except as may be otherwise herein provided, subsequent joinder to this agreement shall be effective the first day of the month following the filing with the Commissioner and the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this agreement, unless objection to such joinder by the Commissioner or the Supervisor is duly made within sixty (60) days after such filing; provided, however, that as to State lands such subsequent joinder must be approved by the Commissioner.

It is expressly agreed by the parties hereto that the provisions of this Section 14 are made subject to the provisions of Section 15 hereinabove set forth and nothing contained herein shall be construed in contravention or derogation thereof.

~~SECTION 15. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and 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 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 land within the above described Unit Area.~~

SECTION 36. TAXES: The Working Interest Owners shall tender

and pay or cause to be rendered and paid for their account and the account of the Royalty Owners all valid taxes on or measured by the amount or value of the Unitized Substances produced, gathered and sold from the land subject to this agreement. The Working Interest Owners in each Tract may charge the proper proportion of said taxes to the Royalty Owners having interests in said Tract, and may currently retain and deduct sufficient of the Unitized Substances or derivative products, or net proceeds thereof, from the allocated share of each Royalty Owner to secure reimbursement for the taxes so paid. No taxes shall be charged to the United States or the State of New Mexico or to any lessee who has a contract with his lessee to pay such taxes.

In order to avoid title failures which might incidentally cause the title to a Working Interest or Royalty Interest to fail, the owners of (1) the surface rights to each committed Tract, (2) severed mineral or Royalty Interest in said Tracts and (3) improvements located in said Tracts not utilized for Unit operations shall individually be responsible for the rendition and assessment, for ad valorem tax purposes, of all such property, and for the payment of such taxes, except as otherwise provided in any contract or agreement between such owners and a Working Interest Owner or Owners. If any ad valorem taxes are not paid by such owner responsible therefor when due, Unit Operator may, at any time prior to tax sale, pay the same, redeem such property and discharge such tax liens as may arise through non-payment. In the event Unit Operator makes any such payment or redeems any such property from tax sale, Unit Operator shall be reimbursed therefor by the Working Interest Owners in proportion to their respective Unit Participations then in effect, and Unit Operator shall withhold from any proceeds derived from the sale of Unitized Substances otherwise due to said delinquent taxpayer or taxpayers an amount sufficient to defray the costs of such payment or redemption, such withholding to be distributed among the Working Interest Owners in proportion to their respective contributions toward such payment or redemption. Such withholding shall be without prejudice to any other remedy, either at law or in equity, which may be available for exercise by the Unit Operator or by the Working Interest Owners.

SECTION 37. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owner, 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 provisions thereof to the extent that the said Unit Operator or the 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 proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority which by any provisions of this agreement are vested in the Commission shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

SECTION 38. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 39. NO SHARING OF MARKET. This agreement is not intended to provide, and shall not be construed to provide, directly or indirectly for any cooperative refining, joint sale, or marketing of United Substances.

SECTION 40. BORDER AGREEMENTS. Unit Operator, with concurrence of Working Interest Owners having a combined Phase II Unit Participation of sixty five percent (65%) or more, may, subject to approval of the Supervisor, enter into a border-protection agreement or agreements with the Working Interest Owners of lands not subject hereto, when said agreements provide for operations designed to increase ultimate recovery, conserve

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

Attest: R. Kendall Atkinson
Assistant Secretary

SKELLY OIL COMPANY
By: Qudd H. Qualling
Vice President

Date: April 5, 1973

UNIT OPERATOR
NON-OPERATORS
257

STATE OF OKLAHOMA
COUNTY OF TULSA) SS

The foregoing instrument was acknowledged before me this 5th day of April, 1973 by Qudd H. Qualling Vice President for SKELLY OIL COMPANY, on behalf of said company.

My Commission Expires:
Aug 24 1975

Louise N. Laine
Notary Public

