

6-17-46 hl

UNIT AGREEMENT FOR THE DEVELOPMENT  
AND OPERATION OF THE WORMAN LAKE AREA,  
CHAVES COUNTY, NEW MEXICO.

THIS AGREEMENT, entered into as of the 1st day of July, 1946, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H:

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

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent avoidable waste, and secure other benefits obtainable through development and operation of the unit area subject to this agreement under the terms, conditions and limitations herein-after set forth, under and pursuant to the provisions of Sections 17, 27 and 32 of the Act of Congress approved February 25, 1920, entitled "An Act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain", 41 Stat. 443, 448, 450, as amended or supplemented by the Acts of March 4, 1931, 46 Stat. 1523, and August 21, 1935, 49 Stat. 676; 30 U. S. C. 226, 184, and 189; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Chap. 88, Laws of 1943) to consent to or approve this agreement on behalf of the State of New Mexico, in so far 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

EXHIBIT A

New Mexico is authorized by an Act of the Legislature (Chap. 72, Laws of 1935) to approve this agreement and the conservation provisions hereof;

NOW, THEREFORE, in consideration of the premises and the promises hereinafter contained, the parties hereto commit to this agreement all their respective interests in the below-defined unit area (excepting only any interests excluded from commitment to this agreement as provided in section 24 hereof), and agree severally among themselves as follows:

1. ENABLING ACT AND REGULATIONS. The Act of Congress, approved February 25, 1920, supra, as amended, and the Acts of the Legislature of the State of New Mexico (Chap. 72, Laws of 1935 and Chap. 88, Laws of 1943) and all pertinent regulations heretofore or hereafter issued thereunder, including operating regulations, are accepted and made a part of this agreement.

2. DEFINITIONS. For all purposes of this agreement certain terms used herein are defined as follows:

(a) "Secretary" shall mean the Secretary of the Interior of the United States and those persons or agencies duly authorized to act for and in his behalf.

(b) "Supervisor" shall mean the Oil and Gas Supervisor of the United States Geological Survey and those persons or agencies duly authorized to act for and in his behalf.

(c) "Commissioner" shall mean the Commissioner of Public Lands of the State of New Mexico.

(d) "Commission" shall mean the Oil Conservation Commission of the State of New Mexico and those persons duly authorized to act for and in its behalf.

(e) "Working Interest Owner" shall mean a party owning the rights to operate upon unitized lands for the purpose of exploring, discovering, developing, and producing unitized substances.

(f) "Royalty Owner" shall mean a party hereto or consenting

hereto owning interests in unitized lands, or leases or other agreements pertaining to unitized lands, other than the rights to operate upon unitized lands for the purpose of exploring, discovering, developing, and producing unitized substances.

(g) "Paying quantities", in regard to any obligations of Unit Operator to drill any well or to continue drilling additional wells, shall mean a quantity of the unitized substances sufficient to repay the cost of drilling, equipping and operating the well and a small profit in addition thereto.

(h) "Unitized lands" shall mean such parts of the unit area as are committed hereto and are described opposite the signatures of the parties hereto.

3. UNITIZED SUBSTANCES. All oil, gas, natural gasoline and associated fluid hydrocarbons producible from land subject to this agreement, in any and all sands or horizons, are unitized under the terms of this agreement and hereinafter are called "unitized substances".

4. UNIT AREA. The following described lands, all situate in the County of Chaves, State of New Mexico, are hereby designated and recognized as constituting the unit area:

New Mexico Principal Meridian, Chaves County, New Mexico

T. 11 S., R. 28 E., sec. 36,  $E\frac{1}{2}SW\frac{1}{4}$ ,  $SE\frac{1}{4}$ .

T. 12 S., R. 28 E., sec. 1, lots 1, 2, 3,  $S\frac{1}{2}NE\frac{1}{4}$ ,  $SE\frac{1}{4}NW\frac{1}{4}$ ,  
 $E\frac{1}{2}SW\frac{1}{4}$ ,  $SE\frac{1}{4}$ ;  
sec. 12,  $E\frac{1}{2}$ ,  $E\frac{1}{2}W\frac{1}{2}$ ;  
sec. 13,  $E\frac{1}{2}$ ,  $E\frac{1}{2}W\frac{1}{2}$ ;  
sec. 24,  $E\frac{1}{2}NE\frac{1}{4}$ .

T. 11 S., R. 29 E., sec. 31, lots 3, 4,  $E\frac{1}{2}SW\frac{1}{4}$ ,  $SE\frac{1}{4}$ .

T. 12 S., R. 29 E.,

sec. 5, $SW\frac{1}{4}$ , $SW\frac{1}{4}SE\frac{1}{4}$ ;	sec. 19, all;
sec. 6, lots 1, 2, 3,	sec. 20, all;
4, 5, 6, 7,	sec. 21, all;
$S\frac{1}{2}NE\frac{1}{4}$ , $SE\frac{1}{4}NW\frac{1}{4}$ ,	sec. 28, all;
$E\frac{1}{2}SW\frac{1}{4}$ , $SE\frac{1}{4}$ ;	sec. 29, all;
sec. 7, all;	sec. 30, all;
sec. 8, all;	sec. 31, lots 1, 2, 3,
sec. 16, $NW\frac{1}{4}SW\frac{1}{4}$ , $S\frac{1}{2}S\frac{1}{2}$ ;	$NE\frac{1}{4}$ , $E\frac{1}{2}NW\frac{1}{4}$ ,
sec. 17, all;	$NE\frac{1}{4}SW\frac{1}{4}$ , $N\frac{1}{2}SE\frac{1}{4}$ ;
sec. 18, all;	sec. 32, $NW\frac{1}{4}$ .

containing 10,066.38 acres, more or less.

The above described unit area shall be enlarged or contracted

whenever such action is necessary or desirable to conform with the purposes of this agreement. Notice of any proposed enlargement or contraction shall be given by the Unit Operator to all parties affected thereby, at least thirty (30) days prior to submission to the Secretary, the Commissioner, and the Commission, with proof of service of such notice. Such enlargement or contraction shall be effective as of the date prescribed in the notice thereof upon approval by the Secretary, the Commissioner, and the Commission.

"Exhibit A" attached hereto is a map on which is outlined the herein-established unit area, together with the ownership of the land and leases in said area. "Exhibit B" attached hereto is a schedule showing the nature and extent of ownership of oil and gas rights in all land in the unit area to which this unit agreement will become applicable by signature hereto, or to a counterpart hereof, by the owners of such rights. It is hereby understood and agreed that all owners of rights set forth in said Schedule B are eligible to become parties to this agreement. Said exhibits shall be revised by the Unit Operator whenever any change in the unit area or ownership of rights renders such change necessary, and the revised exhibits shall be filed with the record of this agreement.

5. UNIT OPERATOR. RICHFIELD OIL CORPORATION, a Delaware corporation, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit B and agrees and consents to accept the duties and obligations of Unit Operator to conduct and manage the operation of said unitized lands for the discovery, development and production of unitized substances as hereinafter provided. Hereinafter whenever reference is made to the Unit Operator, such reference is understood to mean the Unit Operator acting in that capacity and not as an owner of interests in unitized substances, and whenever reference is made to an owner of unitized substances such a reference shall be understood to include any interests in unitized

substances owned by the Unit Operator.

The Unit Operator shall have the right to resign at any time provided that any well drilled hereunder is placed in a satisfactory condition for suspension, or is satisfactorily abandoned under the federal oil and gas operating regulations, if on federal land, and under the laws of the State of New Mexico and the rules and regulations of the Commission, if on state or patented land; but no Unit Operator shall be relieved from the duties and obligations of Unit Operator for a period of three (3) months after notice of intention to relinquish such duties and obligations has been served by him on all other parties hereto and the Secretary and the Commissioner, 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 date on which relinquishment by or removal of Unit Operator becomes effective. The parties hereto or a duly qualified new unit operator may purchase at its then depreciated market value all or any part of the equipment, material and appurtenances in or upon the land subject to this agreement, owned by the retiring unit operator, in its capacity as such operator, or make other arrangements satisfactory to the retiring unit operator for the use thereof, provided that no such equipment, material or appurtenances so selected for purchase shall be removed prior to the effective date of Unit Operator's retirement. Any equipment, material and appurtenances not so purchased or arranged for as to the use thereof within said time limit may be removed by the retiring Unit Operator at any time within six (6) months after his relinquishment or removal becomes effective, but if not so removed shall become the joint property of the owners of working interest rights in land then subject to this agreement. The termination of any rights as Unit Operator under this agreement shall not of itself terminate any right, title or interest which the Unit Operator may then have in the unitized substances, but the Unit Operator shall have the right and option in connection with its resignation to reassign or retransfer to its several predecessors in interest all of its

interest in the lands and leases severally acquired from them, together with its working interest in the unitized substances, and upon such delivery be discharged from any future liability as a working interest owner hereunder; said reassignments to be effective as to said transferee thereupon, subject, however, to the approval of the Secretary as to transfers of interest in lands of the United States, and subject, however, to the approval of the Commissioner as to interests in lands of the State of New Mexico.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall discontinue or relinquish his rights as Unit Operator or shall fail to fulfill his duties and obligations as Unit Operator under this agreement, the owners of the majority of the unitized working interests in the participating area on an acreage basis, or the owners of working interests according to their total acreage interest in the unit area until a participating area shall have been established, shall select a new Unit Operator; provided that if the majority of the working interest rights which are at any time qualified to vote in selecting a new Unit Operator are owned by one party to this agreement then a vote of at least two owners of working interests qualified to vote shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall agree and consent in writing to accept the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Secretary and the Commissioner. In the absence of the selection of an acceptable Unit Operator by the Working Interest Owners within six (6) months after notice by Unit Operator of intention to relinquish its rights as Unit Operator, this unit agreement shall automatically terminate. The Unit Operator shall be subject to removal by the Working Interest Owners in the same manner as herein provided for the selection of a new Unit Operator.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as hereinafter specified, 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, and disposing of the unitized substances are hereby vested in the Unit Operator and shall be exercised by said Unit Operator as provided in this agreement. Acceptable evidence of title to said rights shall be deposited with the Unit Operator and, together with this agreement, shall constitute and define said Unit Operator's rights, privileges and obligations in the premises; provided that nothing herein shall be construed to transfer title to any land, or to any operating agreement or leases, it being understood that under and pursuant to this agreement the Unit Operator shall exercise the rights of possession and use vested in the parties hereto only and exclusively for the purposes herein specified. Unit Operator shall pay all costs and expenses of development and operation with respect to the unitized land and shall operate at the expense and for the benefit of all Working Interest Owners. Such costs shall be charged to the account of the owner or owners of working interests and Unit Operator shall be reimbursed therefor by such owners and shall account to the Working Interest Owners for their respective shares of the revenue and benefits derived from operations hereunder, all in the manner and to the extent provided under private agreement between the Unit Operator and the Working Interest Owners. No such private agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this unit agreement and the private agreement this unit agreement shall prevail. Two authenticated copies of any such private agreement executed pursuant to this section shall be filed with the Oil and Gas Supervisor, and if state lands are involved two authenticated copies of such agreement shall be filed with the Commissioner. No part of the costs and expenses of operations shall be charged to the Royalty Owners.

The development and operation of land subject to this

agreement under the terms hereof shall be deemed full performance by Unit Operator of all obligations for such 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.

8. DRILLING TO DISCOVERY. Within six (6) months from the effective date of this agreement Unit Operator shall begin to drill an adequate test well at a location upon the unitized lands to be approved by the Supervisor, if such location is upon lands of the United States, and if upon state lands or patented lands, such location shall be approved by the Commission, and having commenced such operations shall continue such drilling diligently until said well shall have been drilled to a depth of not less than eight thousand (8000) feet, unless oil or gas which can be produced in paying quantities is encountered in said well at a lesser depth, or unless, at a lesser depth, an igneous or metamorphic formation or some other condition or formation is encountered which would render further drilling inadvisable or impracticable. If said first well, drilled as aforesaid, fails to encounter the unitized substances, Unit Operator or his successor shall thereupon commence within six (6) months after the completion of the former well, and drill, one at a time, additional wells, allowing six (6) months between wells, until a productive well is completed to the satisfaction of the Supervisor and Commissioner, or until it is reasonably proved that the unitized land is incapable of producing the unitized substances in paying quantities; provided that the Secretary and Commissioner may grant extension of time for the commencement of any such well; and provided further that nothing herein contained shall preclude any Unit Operator from resigning at any time as provided in section 5 hereof. Upon failure to comply with the drilling provisions of this section, the

Secretary and the Commissioner may, after sixty (60) days' written notice to Unit Operator, declare this unit agreement terminated, unless the Unit Operator shall prior to the expiration of the 60-day period take appropriate steps to cure such default.

9. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within sixty (60) days from completion of a well capable of producing the unitized substances, as aforesaid, Unit Operator shall submit for the approval of the Supervisor, the Commissioner, and the Commission an acceptable plan of development for the unitized lands, which plan or a subsequent modification thereof, when so approved, shall constitute the further drilling and operating obligations of Unit Operator. Said plan and its subsequent modifications shall provide for exploration of the unitized area and for the determination of the commercially productive limits thereof in each and every productive formation and to this end shall be as complete and adequate as the Supervisor, the Commissioner, and the Commission may determine to be necessary and advisable for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Reasonable diligence shall be exercised by the Unit Operator in complying with the drilling and producing obligations of the approved plan of development and said plan shall be modified or supplemented in whole or in part from time to time as may be required to meet changed conditions or to protect the interests of all parties to this agreement, and the further obligations of the Unit Operator shall be conformed thereto; provided further that in no event shall the Unit Operator under any such plan, or otherwise, be under any obligation to drill any well to any formation that does not afford a fair possibility for encountering the unitized substances in paying quantities. Well drilling operations, including well completions,

producing practices and well abandonments, shall be in accordance with the Plan of Development and Operation. All operations thereunder shall be subject to the approval of the Supervisor as to wells on federal land, and by the Commission for wells on state and private land.

During any period when it shall appear that an acceptable plan of development cannot be adopted because of the inability of the Supervisor, the Commissioner and the Commission to agree upon the terms thereof, the Unit Operator may, in accordance with the applicable regulations referred to in section 1 hereof, proceed with reasonable diligence to drill other wells to determine the limits of production and to develop the productive portion of the unitized lands, and may and shall operate all productive wells in conformity with good operating practices, and the conservation principles of this agreement.

10. PARTICIPATION AFTER DISCOVERY. Upon completion of a productive well as aforesaid, Unit Operator shall submit for the approval of the Secretary, the Commissioner and the Commission a schedule of land based on subdivisions of the public-land survey, including all subdivisions one-half or more of the acreage of which is then regarded as reasonably proved to be productive of unitized substances in paying quantities; all land in said schedule when approved to constitute a participating area, effective as of the date of first production from such participating area. Said schedule shall set forth the percentage acreage interest of each owner of rights in the participating area thereby established. Such percentage acreage interest shall, except as otherwise provided in this agreement, govern the allocation of production from the participating area. With the approval of the Secretary, Commissioner and Commission, a separate participating area may be established for any separate deposit of unitized substances or for any group of such deposits. The participating area or areas so established shall be revised from time to time, in like manner and 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 a new schedule of percentage acreage interests conformable thereto shall thereupon be fixed. No land once included in a participating area shall be excluded from such participating area on account of depletion of the unitized substances therefrom. It is the intent of this section that a participating area shall at all times represent as nearly as possible the area known or reasonably estimated to be productive in paying quantities.

On the first day of the month following approval of a revised schedule of percentage acreage interests, as herein provided, the allocation of unitized substances and the costs of operations shall be accordingly apportioned and adjusted retroactively as of the date of the completion of the first well capable of producing unitized substances in paying quantities in the participating area; except that no retroactive adjustment shall take into consideration any benefits of operations paid and any costs of operations received by Unit Operator by reason of any lands which shall have been excluded from a participating area because such lands are regarded as reasonably proved not to have been capable of producing unitized substances in paying quantities. Likewise there shall be no retroactive adjustment in the computation of royalties. If any lands shall be excluded from a participating area because such lands are regarded as reasonably proved not to have been capable of producing unitized substances in paying quantities, such lands shall not share thereafter in the costs or benefits of operations. The holder of the interests in such lands so excluded shall not be obligated to repay any benefits allocated to such lands theretofore received, nor shall such holder be entitled to recover any part of the costs allocated to such excluded lands and theretofore paid by him, except any excess of costs so paid over benefits so received.

Until a participating area or a revision thereof has been approved as herein provided, or in the absence of agreement at any time between the Unit Operator, the Secretary, the Commissioner and the Commission as to the proper boundaries, or as to a revision, of a participating area, the portion of all payments affected by such absence of agreement, except royalties due the United States and the State of New Mexico, may be impounded in a manner mutually acceptable to the Working Interest Owners.

Whenever it is determined, subject to the approval of the Oil and Gas Supervisor, the Commissioner, and the Commission, that a well drilled under this agreement obtains production insufficient to justify inclusion of the land on which it is situated in a participating area, the production of such well shall be allocated solely to the land on which the well is situated as long as that land is not part of a participating area established for the pool or deposit from which such production is obtained.

11. DEVELOPMENT OF LANDS OUTSIDE THE PARTICIPATING AREA.

Any party hereto other than Unit Operator owning or controlling a majority of the working interest rights in any unitized tract included in the non-participating area having thereon a regular well location may drill a well at such location at his own expense, unless within ninety (90) days of receipt of notice from said party of his intention to drill the well Unit Operator elects and commences to drill such well in like manner as other wells are drilled by Unit Operator under this agreement.

If such well is not drilled by Unit Operator and results in production such that the land upon which it is situated may properly be included in a participating area, the party paying the cost of drilling such well shall be reimbursed one hundred twenty-five per cent (125%) of the average cost of drilling similar producing wells in the unitized area, and the well shall be operated pursuant to the terms of this agreement, all as though the well had been

drilled by the Unit Operator.

If any well drilled by Unit Operator or by a Working Interest Owner, as provided in this section, obtains production insufficient to justify inclusion in a participating area of the land on which said well is situated, and Unit Operator elects to abandon any such well drilled by it, said Working Interest Owner, at his election, within thirty (30) days of determination of such insufficiency, shall be wholly responsible for and may operate and produce and abandon the well at his sole expense and for his sole benefit. If such well is drilled by Unit Operator, said Working Interest Owner shall pay the Unit Operator a fair salvage value price for the casing and other equipment left in the well and the cost of drilling such well shall be charged as a cost of operations hereunder.

Wells drilled at the sole expense of any Working Interest Owner other than Unit Operator or produced at the sole expense and for the sole benefit of such Working Interest Owner shall be subject to the drilling and producing requirements of this agreement the same as though drilled or produced by Unit Operator, and royalty in amount or value of production from any such well, as well as rental charges, if any, shall be paid by such Working Interest Owner as specified in the lease affected, unless otherwise authorized in writing by the lessor.

12. ALLOCATION OF PRODUCTION - ROYALTIES. Except as otherwise provided in this agreement, all unitized substances produced under this agreement, except any part thereof used for production and development purposes thereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of land comprising the participating area and, for the purpose of determining any benefits that accrue on an acreage basis as a result of operations under this agreement, each such tract shall have allocated to it such percentage of said production as its area bears to the said participating area, except that if, as a result

of a change in the boundaries of a participating area, any tract of land in the participating area, as revised, shall not have received its allocated share of the unitized substances due to it upon such apportionment and adjustment, and any other tract shall have received more than its allocated share of the unitized substances than are due to it upon such apportionment and adjustment, then all unitized substances accruing to the total acreage of the participating area after the date of such apportionment and adjustment shall be allocated to such tract or tracts as have not received their allocated share of the unitized substances due such tract or tracts upon such apportionment and adjustment, until the amount of unitized substances due any such tract or tracts as a result of said apportionment and adjustment has been fully satisfied. So long as all the unitized substances produced hereunder accruing to the total acreage of the participating area are being allocated to less than all of the tracts in the participating area, as above provided, the unitized substances shall be divided among such tracts on an acreage basis in the ratio that the acreage of any such tract bears to the total acreage of all such tracts. Provided further, that if production should fail or cease for any cause prior to the date any tract shall have received the proportionate share of the unitized substances to which it is entitled upon any such apportionment and adjustment, Unit Operator shall not be liable to make up any deficiency, the parties hereto agreeing that they will look only to the unitized substances produced hereunder for the purpose of satisfying any allocated unitized substances pursuant to this agreement. It is hereby agreed that production from any part of the participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said area.

Unit Operator shall not be required to pay royalties on unitized substances produced under this agreement and used by Unit Operator in its operations hereunder or unavoidably lost. Unitized

substances produced from a participating area and used in conformity with good operating practice under an approved plan of operation for repressuring or cycling in such participating area shall not be allocated on an acreage basis as herein provided and shall be free from any royalty charge.

If Unit Operator introduces gas obtained from sources other than the unitized substances into any participating area hereunder for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan first approved by the Supervisor, the Commissioner and the Commission, a like amount of gas with a proportionate deduction for plant fuel consumption and shrinkage may be drawn from the formation into which the gas was introduced, royalty free and free from allocation as provided for herein, 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 operation 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 the unit agreement.

Except as otherwise herein provided, royalties shall be paid or delivered as provided by existing leases or contracts, at the lease or contract rate upon the unitized substances allocated to the lease or tract. Settlement shall be made on or before the 20th day of each month for the unitized substances produced and allocated during the preceding calendar month. Such royalties shall be paid by Unit Operator who shall distribute the cost thereof to the appropriate parties conformably with their respective royalty obligations, but nothing herein shall operate to relieve the lessees, or any of them, of their obligation to pay rentals and royalties under the terms of their respective leases.

The right is hereby secured to the United States and the State of New Mexico under existing or future laws and regulations to

elect to take their respective royalty shares in kind or value.

13. GOVERNMENT ROYALTIES. Royalty due the United States on account of federal lands subject to this agreement within the unit area shall be computed as provided in the operating regulations and shall be paid as to all unitized substances produced from a participating area on the basis of the amounts thereof allocated to such land, as provided herein, at the rates specified in the respective federal leases; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production for any participating area shall be determined as of the month the unitized substances are allocated in accordance with the operating regulations as though all the unitized lands within the same participating area were a single consolidated lease. During the period of the National Emergency proclaimed by the President on May 27, 1941, Proclamation No. 2487 (55 Stat. 1647), upon a determination by the Secretary of the Interior that a new oil or gas field or deposit has been discovered by virtue of a well or wells drilled under this agreement, the royalty on production from such new field or deposit allocated to federal land subject to this agreement at the time of such discovery shall, during the 10-year period following the date of such discovery, be paid in value or delivered in kind at a flat rate of 12-1/2 per centum unless a lower rate is prescribed in the lease.

14. RENTALS. Unit Operator, from and after the effective date of this agreement, on behalf of the respective Working Interest Owners, shall pay all rentals of whatsoever kind thereafter accruing to the United States, the State of New Mexico and/or landowners on account of unitized land, and all such rentals paid by Unit Operator shall be charged to the accounts of the appropriate Working Interest Owners in conformity with their respective rental obligations; provided that nothing herein contained shall operate to relieve the lessees and/or Working Interest Owners, or any of them, of their obligation to pay rentals under the terms of their respective leases

or other agreements, and all such sums so advanced by Unit Operator shall be repaid to Unit Operator as provided in the private agreement hereinabove referred to between Working Interest Owners. Rental for land of the United States subject to this agreement at the rate specified in the respective leases from the United States shall be paid, suspended, or reduced as may be determined by the Secretary pursuant to applicable law and regulations. The Unit Operator may apply the government's allocated royalty share of the unitized substances allocated to any Federal lease during any year to repayment for government rentals advanced thereunder for that year to the same extent as otherwise allowed in the case of a non-unitized government lease.

15. CONSERVATION. Operations and production of unitized substances shall be conducted so as to provide for the most economical and efficient recovery of unitized substances to the end that maximum ultimate yield may be obtained without waste. Production of unitized substances shall at all times be without waste as defined by or pursuant to state or federal law.

16. DRAINAGE. 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, with the approval of the Secretary as to federal interests and of the Commissioner as to state interests, and at the election of the Unit Operator as to private interests, pay the Royalty Owners a fair and reasonable compensatory royalty, as determined by the Supervisor as to federal interests, and the Commissioner as to state interests subject to this agreement, and by agreement between the Unit Operator and Royalty Owners, as to private interests.

17. LEASES AND CONTRACTS CONFORMED TO AGREEMENT. The parties hereto holding interests in leases embracing unitized land of the United States or of the State of New Mexico consent that the Secretary and Commissioner, respectively, may, and said Secretary and Commissioner,

by their approval of this agreement, do hereby establish, alter, change or revoke the drilling, producing, and royalty requirements of such leases and the regulations in respect thereto, to conform said requirements to the provisions of this agreement, but otherwise the terms and conditions of said leases shall remain in full force and effect.

Owners and lessors of privately owned lands or of interests therein, including royalty interests, and including their heirs, executors, administrators, successors and assigns, by subscribing, ratifying or consenting to this agreement, in person or by attorney-in-fact, do hereby severally agree that the respective leases covering their several lands or interests therein, may be and remain in force and effect for the respective primary terms therein stated, and so long thereafter as oil or gas may be produced therefrom in quantities sufficient to justify the cost of production; and also in the event that any of the land embraced in any such lease is during the primary term of such lease included within a participating area duly selected and approved under this unit plan of development, so that such owner becomes entitled to a share in the proceeds of production from the participating area, payable at the respective lease rates on the production allocated on an acreage basis to the portion of the lease within the participating area as herein provided, then each such lease is hereby extended, without further delay rental obligation, as to the land embraced therein which is so included in such participating area, for the full term of this unit agreement as herein stated.

The Secretary, Commissioner and, except as otherwise provided in the preceding paragraph of this section, all parties hereto further determine, agree and consent that during the effective life of this agreement, drilling and producing operations performed by the Unit Operator upon any unitized land will be accepted and deemed to be operations under and for the benefit of all unitized leases subject hereto; that no such lease shall be deemed to expire

by reason of failure to produce wells situated on land therein embraced; that if a discovery of a valuable deposit of unitized substances is made anywhere on the unitized land, each such lease in effect on or after the date of such discovery shall be deemed to continue in force and effect as to land in the unit area, as long as unitized substances are produced anywhere on unitized land in paying quantity; that prior to such discovery of unitized substances anywhere on unitized land, the expiration date of each unitized lease shall be the date prescribed in such lease, subject to such preferential right to a new lease as may be authorized by law; and the suspension of all operations and production on the unitized land pursuant to direction or consent of said Secretary and Commissioner shall be deemed to constitute such suspension pursuant to such direction or consent with respect to each such lease, and that no lease shall expire on account of such suspension, as to land in the unit area.

The parties hereto, holding interests in leases subject to this agreement embracing lands other than those of the United States or of the State of New Mexico or holding interests in any other agreements that involve oil and gas rights in lands in the unit area, consent and agree, to the extent of their respective interests, that all such leases and agreements shall conform to the provisions of this agreement.

18. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land and running with the interests of the parties hereto to the extent of such interests until this agreement terminates, and any grant, transfer or lease 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, lessee, or other successor in interest, and as to federal land, shall be subject to approval by the Secretary, and as to lands of the State of New Mexico, shall be subject to the approval of the Commissioner. No transfer of any

interest in and to any of the unitized lands or affecting the production therefrom shall be binding upon the Unit Operator until the first day of the next calendar month after the Unit Operator has been furnished with an original, photostatic or certified copy of the instrument of transfer.

19. EFFECTIVE DATE AND TERM. This agreement shall become effective on the first day of the calendar month next following approval by the Secretary and the Commissioner, provided however that nothing herein shall be construed to waive or limit the right of the Commission to approve this agreement pursuant to applicable state law. Except as otherwise provided by the second paragraph of section 17 hereof, this agreement shall terminate on July 1, 1951, unless (1) such date of expiration is extended by the Secretary and the Commissioner; or (2) a discovery of unitized substances in paying quantities has been made on the unitized lands, in which case this agreement shall remain in effect as long as unitized substances can be produced from the unitized lands in paying quantities; or (3) it is reasonably determined prior to the expiration of the fixed term hereof or any extension thereof that the unitized lands are incapable of production of unitized substances in paying quantities, and with approval of the Secretary and the Commissioner, notice of termination is given by Unit Operator to all parties in interest by letter addressed to them at their last known places of address; or (4) it is terminated as provided in section 6 hereof. This agreement may be terminated at any time with the consent of the owners of not less than seventy-five per cent (75%), on an acreage basis, of the Working Interest Owners signatory hereto with the approval of the Secretary and the Commissioner.

20. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All production and the disposal thereof, shall be in conformity with allocations, allotments and quotas made or fixed by the Commission under any state statute; provided however that the Secretary is

vested with authority pursuant to the amendatory acts of Congress of March 4, 1931, and August 21, 1935, supra, to alter or modify from time to time in his discretion the rate of prospecting and development, and, within the limits made or fixed by the Commission, to 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 lands 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.

21. FORCE MAJEURE. Failure or delay in the performance of the terms, conditions, and covenants hereof shall not cause this contract to expire, terminate, or be forfeited in whole or in part, nor subject the Unit Operator or other party otherwise liable therefor to liability in damages, to the extent and so long as such prompt performance is hindered, delayed or prevented by any federal or state law, executive order, rule or regulation, or to the extent and so long as such performance is hindered, delayed or prevented by an act of God, of the public enemy, governmental interference or restraint, inability to obtain material or equipment, labor disputes, failure of transportation, or other cause, whether similar or dissimilar, beyond the control of the party in interest.

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 for delay or failure in whole or in part to comply therewith

to the extent that said Unit Operator, Working Interest Owners or any of them are hindered, delayed or prevented from complying therewith by reason of failure of Unit Operator to obtain the joint consent of the representatives of the United States and the representatives of the State of New Mexico in and about any matter or thing concerning which it is required herein that such joint consent be obtained. The parties hereto and consenting hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provision of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and are 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.

23. NON-DISCRIMINATION. The Unit Operator expressly agrees that in any and all operations conducted hereunder it shall not discriminate against any employee or applicant for employment because of race, creed, color or national origin, and shall require an identical provision to be included in all subcontracts.

24. NON-JOINDER AND SUBSEQUENT JOINDER. If the holder of any substantial interest in a tract of land within the unit area fails or refuses to subscribe hereto or to ratify or approve this agreement, so that said tract cannot be regarded as committed to this agreement, the Working Interest Owner in such tract may withdraw said tract from this agreement by notice to Unit Operator prior to the approval of <sup>and the Commissioner,</sup> this agreement by the Secretary// and appropriate notation of such withdrawal shall be made in Exhibit B hereof, and thereupon such tract shall be regarded as not committed to this agreement. Any person owning oil and gas rights in the unit area who does not commit such rights hereto prior to the effective date hereof, may thereafter commit such rights hereto by subscribing to a counterpart of this agreement, or by a separate ratification or consent hereto, and if such parties are Working Interest Owners they shall also subscribe the operating contract and comply with all terms and conditions therein set forth. Such subsequent joinder shall be effective on the first of the month following the filing of five counterparts thereof with the

Supervisor. A counterpart thereof shall also be filed with the Commissioner and with the Commission.

25. FAILURE OR DEFECT IN TITLE. This agreement shall not be affected by any failure or defect in the title of any Working Interest Owner or Royalty Owner to land or leases or operating agreements in the unit area, but if at any time title to any of said land, leases, or operating agreements shall be disputed or clouded by court action or otherwise so as to jeopardize the right of Unit Operator to operate such lands in the manner and for the purposes herein set forth, the Unit Operator, during the period of such jeopardy, may impound the unitized substances produced therefrom, or the proceeds of the sale thereof except royalties due the United States or the State of New Mexico until the right to operate said lands shall be satisfactorily cleared. If a party hereto shall lose title, in whole or in part, to land or leases or operating agreements made subject to this agreement by such party, such party's participation hereunder as to the lands or leases or operating agreements as to which such title shall be lost, shall be cancelled to the extent of such failure of title, and on such cancellation such party shall refund and repay to Unit Operator all profits, monies, credits and the value of unitized substances received in kind under this agreement, and shall be entitled to a refund of any costs and expenses theretofore paid by such party by reason of the land, leases or operating agreements to which title has been lost. Unit Operator shall be under no obligation to defend title to lands or leases, operating agreements or other contracts covering lands subject to this agreement belonging to any party subscribing or consenting hereto, but may do so at its election.

26. NOTICES. All notices to all parties subscribing or consenting hereto herein provided for shall be deemed to have been given when deposited in the United States mail as registered mail, with postage thereon fully prepaid, addressed to such parties, and if their addresses are set forth under their respective signatures hereto, then at such addresses, or when filed as a telegram with the Western Union Telegraph Company or any successor in interest of said telegraph company,

addressed as above provided, with all charges thereon fully prepaid.  
 Any such party by notice in writing to Unit Operator shall be privileged  
 to change its address.

27. HEIRS AND ASSIGNS. This agreement shall extend to and be  
 binding upon the respective heirs, executors, administrators, successors  
 and assigns of the parties hereto.

28. COUNTERPARTS. This 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 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.

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

<u>DESCRIPTION OF LANDS</u> <u>New Mexico Principal Meridian</u> T. 11 S., R. 28 E., Sec. 36, SE $\frac{1}{4}$ SW $\frac{1}{4}$ . T. 12 S., R. 29 E., Sec. 7, NE $\frac{1}{4}$ NW $\frac{1}{4}$ , N $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$ , Sec. 8, NW $\frac{1}{4}$ , W $\frac{1}{2}$ SW $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , NW $\frac{1}{4}$ SE $\frac{1}{4}$ , Sec. 16, SW $\frac{1}{4}$ SE $\frac{1}{4}$ , Sec. 17, W $\frac{1}{2}$ NW $\frac{1}{4}$ , SE $\frac{1}{4}$ NW $\frac{1}{4}$ , NE $\frac{1}{4}$ , Sec. 19, E $\frac{1}{2}$ NW $\frac{1}{4}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$ , Sec. 20, NW $\frac{1}{4}$ , S $\frac{1}{2}$ , Sec. 21, S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ , Sec. 28, NW $\frac{1}{4}$ , S $\frac{1}{2}$ , Sec. 29, SW $\frac{1}{4}$ NE $\frac{1}{4}$ , S $\frac{1}{2}$ , Sec. 30, SE $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$ , Sec. 31, E $\frac{1}{2}$ NW $\frac{1}{4}$ , S $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ SW $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$ .	) RICHFIELD OIL CORPORATION ) ) ) By _____ Vice President ) ) By _____ Secretary ) ) <u>UNIT OPERATOR and</u> ) <u>WORKING INTEREST OWNER</u> ) ) Address: 555 South Flower Street Los Angeles 13, California. ) ) Executed this _____ day of ) _____, 1946.
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Witnesses to signature of  
 RICHFIELD OIL CORPORATION

Witness: \_\_\_\_\_  
 \_\_\_\_\_

OTHER WORKING INTEREST OWNERS

DESCRIPTION OF LANDS

New Mexico Principal Meridian

T. 12 S., R. 29 E.,

- Sec. 7, SE $\frac{1}{4}$ NW $\frac{1}{4}$ , S $\frac{1}{2}$ NE $\frac{1}{4}$ ,
- Sec. 8, N $\frac{1}{2}$ NE $\frac{1}{4}$ ,
- Sec. 16, SE $\frac{1}{4}$ SW $\frac{1}{4}$ ,
- Sec. 17, NE $\frac{1}{4}$ NW $\frac{1}{4}$ ,
- Sec. 19, N $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NE $\frac{1}{4}$ ,
- Sec. 20, NE $\frac{1}{4}$ ,
- Sec. 21, N $\frac{1}{2}$ NE $\frac{1}{4}$ ,
- Sec. 28, NE $\frac{1}{4}$ ,
- Sec. 29, N $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NE $\frac{1}{4}$ ,
- Sec. 30, W $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ NW $\frac{1}{4}$ ,
- Sec. 31, N $\frac{1}{2}$ NE $\frac{1}{4}$ ,
- Sec. 32, NW $\frac{1}{4}$ NW $\frac{1}{4}$

) \*KERR-McGEE OIL INDUSTRIES, INC.,

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

By \_\_\_\_\_  
Secretary

Address: Kerr-McGee Building,  
Oklahoma City, Oklahoma.

Executed this \_\_\_\_\_ day of  
\_\_\_\_\_, 1946.

Witnesses to signature of  
KERR-McGEE OIL INDUSTRIES, Inc.,

Witnesses: \_\_\_\_\_

\_\_\_\_\_

\*formerly Kerlyn Oil Company.

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

SS.

On this \_\_\_\_\_ day of \_\_\_\_\_, 1946, before me personally  
appeared \_\_\_\_\_, to me personally known, who,  
being by me duly sworn did say that he is the \_\_\_\_\_ President of  
KERR-McGEE OIL INDUSTRIES, INC., and that the seal affixed to the fore-  
going 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 corpora-  
tion.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my  
official seal on this the day and year first above written.

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

My commission expires: \_\_\_\_\_