

COOPERATIVE AGREEMENT FOR THE SECONDARY RECOVERY
OF THE CAPROCK FIELD,
LEA AND CHAVES COUNTIES, NEW MEXICO

THIS AGREEMENT, made and entered into as of the ____ day
of _____, 1951, by and between the parties subscribing,
ratifying or consenting hereto and herein referred to as the "parties
hereto";

W I T N E S S E T H:

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

WHEREAS, the Commissioner of Public Lands of the State of
New Mexico, hereinafter referred to as the "Commissioner", is authorized
by law (Chapter 88, Session laws of 1943 and Acts amendatory thereto) to
consent to and approve the development or operation of State lands under
agreements made by lessees of State land jointly or severally with other
lessees where such agreements provide for the cooperative or unit opera-
tion or development of part or all of any oil or gas pool, field or area;
and

WHEREAS, the New Mexico Oil Conservation Commission, here-
inafter referred to as the "Commission", is authorized by law (Chapter
72, Laws of 1935, and Acts amendatory thereto) to approve this agreement
and the conservation provisions thereof; and

WHEREAS, it is the purpose of the parties hereto to effect
and put into operation a plan for the secondary recovery of the Caprock
Field or pool embracing lands situated in Lea and Chaves Counties, New
Mexico, hereinafter more particularly described, and thereby effect a
secondary recovery program which will promote the conservation of oil
and gas and the prevention of waste, and secure other benefits obtain-
able through the development and operation of the area subject to this

agreement (which may be referred to as the "Caprock Cooperative Re-
suring Association") under the terms, conditions and limitations herein
set forth;

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

1. COOPERATIVE AREA. The following described land is hereby
designated and recognized as constituting the cooperative area:

Twp. 12 S., Rge. 31 E., N.M.P.M.

Sec. 25: $E\frac{1}{2}SE\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$, $S\frac{1}{2}SW\frac{1}{4}$
Sec. 35: $SE\frac{1}{4}NE\frac{1}{4}$, $E\frac{1}{2}SE\frac{1}{4}$
Sec. 36: All

Twp. 12 S., Rge. 32 E., N.M.P.M.

Sec. 28: $SW\frac{1}{4}SW\frac{1}{4}$
Sec. 29: $SW\frac{1}{4}NE\frac{1}{4}$, $S\frac{1}{2}NW\frac{1}{4}$, $SE\frac{1}{4}SE\frac{1}{4}$, $W\frac{1}{2}SE\frac{1}{4}$, $SW\frac{1}{4}$
Sec. 30: $SE\frac{1}{4}NW\frac{1}{4}$, $S\frac{1}{2}NE\frac{1}{4}$, $S\frac{1}{2}$
Sec. 31: All
Sec. 32: All
Sec. 33: $W\frac{1}{2}W\frac{1}{2}$

Twp. 13 S., Rge. 31 E., N.M.P.M.

Sec. 1: All
Sec. 2: $SE\frac{1}{4}NW\frac{1}{4}$, $SW\frac{1}{4}$, $E\frac{1}{2}$
Sec. 11: All
Sec. 12: All
Sec. 13: All
Sec. 14: $N\frac{1}{2}NW\frac{1}{4}$, $SE\frac{1}{4}NW\frac{1}{4}$, $NE\frac{1}{4}SW\frac{1}{4}$, $E\frac{1}{2}$
Sec. 24: $NE\frac{1}{4}NW\frac{1}{4}$, $NE\frac{1}{4}$

Twp. 13 S., Rge. 32 E., N.M.P.M.

Sec. 4: $NW\frac{1}{4}NW\frac{1}{4}$
Sec. 5: All
Sec. 6: All
Sec. 7: All
Sec. 8: All
Sec. 17: $N\frac{1}{2}$, $N\frac{1}{2}SW\frac{1}{4}$, $NW\frac{1}{4}SE\frac{1}{4}$
Sec. 18: All
Sec. 19: $N\frac{1}{2}$, $N\frac{1}{2}SW\frac{1}{4}$

Containing 11,120 acres, more or less.

Exhibit "A" attached hereto and made a part hereof is a
map showing the cooperative area and the boundaries and identity of the
respective leases in said area and the present ownership thereof. Exhibit
"B" attached hereto and made a part hereof is a schedule showing the per-
centage and kind of ownership of oil and gas interests in all lands in

the cooperative area, including those which are productive and those which are non-productive. However, nothing herein contained or in said schedule or map shall be construed as a representation by and parties hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party.

2. SUBSTANCES AND FORMATIONS COVERED BY AGREEMENT. All oil and gas and other hydrocarbon substances in the "Queen" or "Red" Sand found at a depth of from approximately 3000 to 3200 feet are covered by this agreement and shall be subject to all of the terms and conditions hereof.

3. OPERATORS' COMMITTEE. All operations conducted pursuant to this agreement shall be under the supervision of an Operators' Committee. The Operators' Committee shall consist of one representative of each operator who is a party to this agreement. The members of the Operators' Committee shall be designated from time to time by the respective operators or working interest owners of the producing leases as shown by the schedule attached hereto as Exhibit "B" or their successors in interest. Said representatives shall be selected within 10 days after the effective date of this agreement and shall meet and organize within 30 days thereafter, and shall select from among their membership a Chairman, Vice-Chairman, Secretary and Treasurer. The offices of Secretary and Treasurer may be combined in one person. Each member of the Operators' Committee on all questions coming before the Committee shall be entitled to a vote equal to the number of producing wells that the operator whom he represents has in the cooperative area, provided, however, to constitute a quorum for the purpose of holding any meeting there must be present in person or by proxy members of the Operators' Committee having a vote equal to at least 65% of the total number of votes represented by all of the members of the Operators' Committee. The vote of a majority of all operators present in person or by proxy

at any regular called or held meeting of the Operators' Committee shall prevail.

The Operators' Committee shall adopt by-laws or rules and regulations for the conduct of their meetings and as a basis for all operations to be conducted pursuant to this agreement, and defining the duties, powers and authority of all officials and employees, and when so adopted the same shall not be changed unless by a majority vote of all of the members of the Operators' Committee. The Operators' Committee shall also have the right to delegate any and all powers and authority herein given to the Operators' Committee to the Executive Committee hereinafter provided for, and any reference hereinafter made to the Operators' Committee shall apply to the Executive Committee where the Operators' Committee has delegated to the Executive Committee the right to carry out or perform any of the specific provisions hereof wherein the Operators' Committee is designated to carry out such provisions.

4. EXECUTIVE COMMITTEE. The Operators' Committee may select an Executive Committee consisting of not less than three members of the Operators' Committee and may delegate such power and authority to the Executive Committee as they may deem desirable.

5. SUPERINTENDENT AND ENGINEER. The Operators' Committee shall employ a competent superintendent and engineer for the purpose of supervising and conducting properly all operations which are to be carried on pursuant to this agreement. If prescribed by the by-laws or regulations of the Operators' Committee, the superintendent and engineer may be employed by the Executive Committee. The superintendent and engineer shall be employed for such time and paid such salaries or compensations as may be determined by the Operators' Committee, and their salaries or compensations shall be considered as a part of the operating expenses in carrying on operations hereunder. The duties and powers of the superintendent and engineer shall be prescribed by the Operators' Committee, and they shall be immediately and directly responsible to the Executive Committee.

The superintendent shall have the right to hire such employees as may be necessary to carry on the operations contemplated by this agreement within such limitations as may be prescribed by the Operators' Committee.

6. PARTICIPATION AND ALLOCATION OF PRODUCTION. Each of the parties hereto owning an interest in and to the oil, gas and other hydrocarbon substances which may be produced from the cooperative area shall participate in the total production from the cooperative area upon the basis of the percentages shown on the schedule attached hereto, made a part hereof, and for purposes of identification marked Exhibit "C", and for the purpose of determining any benefits accruing under this agreement, and the distribution of the royalties payable to the State of New Mexico and others, each separate lease shall have allocated to it such percentage of said production as shown on said Exhibit "C", and the oil and gas and other hydrocarbon substances so allocated shall be deemed to have been produced from the respective leasehold interests participating therein.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the oil, gas and other hydrocarbon substances which may be produced from said cooperative area in kind, or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to either the Operator's Committee or the Executive Committee the right to sell or otherwise dispose of the proportionate share of any working interest owner or other owner entitled to take such owner's proportionate share in kind.

Any working interest or other owner who takes such owner's share of the oil, gas or other hydrocarbon substances allocated to such leasehold interest in kind shall pay or secure the payment of all royalties and other obligations payable on account of such interest, and shall also

bear any additional expense which may be necessary or occasioned by the taking of said substances in kind.

7. ROYALTY AND RENTAL PAYMENTS. All royalties due the State of New Mexico and others under the terms of the respective leases committed to this agreement shall be computed and paid on the basis of all oil, gas and other hydrocarbon substances which may be allocated to the respective leases committed hereto on the basis of the percentages shown on the schedule attached hereto as Exhibit "C", provided, however, the State and other royalty owners, where provided by the terms of their leases, shall be entitled to take in kind their share of such substances so allocated. All rentals due the State of New Mexico and to others shall be paid by the respective lease owners in accordance with the terms of their leases.

8. PLANT AND EQUIPMENT FOR SECONDARY RECOVERY PROGRAM.

The Cooperative Producing Association, one of the parties hereto, has heretofore equipped a well located in the NE $\frac{1}{4}$ Sec. 31, Twp. 12 S., Rge. 32 E., N.M.P.M., as an injection well for air and water and has also installed in connection therewith compressers and other equipment for the purpose of injecting air and water into the "Queen" or "Red" Sand formation. The Operators' Committee, as soon as possible after the effective date of this agreement, shall formulate and put into effect a secondary recovery plan for the purpose of obtaining the greatest possible recovery of oil, gas and other hydrocarbon substances from the "Queen" or "Red" Sand formation underlying the cooperative area, and in connection therewith shall have the power and authority to select from among the wells which have heretofore been drilled such input or injection wells as may be deemed necessary or required to carry on effectively such operation, and shall also have the right to purchase, acquire, install and maintain such plants or equipment as may be necessary or required in connection therewith, and to do and perform every act and

thing which may be necessary or required to maintain properly and to make effective said secondary recovery program.

The value of the plant and equipment heretofore installed by the Cooperative Producing Association shall be determined on the basis of the initial cost thereof, plus any capital repairs or improvements, less depreciation on a reasonable basis, to the time such plant and equipment is taken over by the Operators' Committee as herein provided. In addition, the Operators' Committee shall make an estimate of the cost of all additional equipment which may be necessary or required to carry on said secondary recovery program, including the drilling and equipping of any injection wells, if such wells shall be deemed necessary. The total estimated cost, including the appraised value of the plant and equipment of the Cooperative Producing Association, shall be prorated or allocated to the respective leasehold interests on the basis of the percentages shown by the schedule attached hereto as Exhibit "C", and each operator or the working interest owners of each lease shall thereupon pay to the Operators' Committee their proportionate parts of the total cost of the plant and equipment and all facilities necessary or required to carry on such secondary recovery program. The Cooperative Producing Association shall be given credit on its proportionate part of the total cost for an amount equal to the appraised value of its plant and equipment hereinabove referred to, or if the appraised value thereof should be more than the cost allocated to the Cooperative Producing Association, the difference shall be paid to the latter. The Operators' Committee shall designate the time and manner of payment.

9. OPERATING EXPENSES AND CONTINGENCY FUND. Accurate books of account shall be kept reflecting all costs and expenses of operation in connection with the secondary recovery program as formulated and put into operation by the Operators' Committee, including the cost of the entire plant, equipment and other facilities purchased, acquired

and maintained in connection therewith. All expenses of operation shall be allocated to the respective leases on the basis of the percentages shown on the schedule attached hereto as Exhibit "C" and shall be paid by the Operator or working interest owners of the respective leases monthly within 20 days after being billed therefor.

The Operators' Committee may provide for a contingency fund over and above the initial cost of the plant, equipment and other facilities necessary to carry on said secondary recovery program, which shall be paid by the respective operators or working interest owners on the basis of the percentages shown on Exhibit "C", and which said fund shall be used to take care of any emergency or any necessary capital replacements or repairs of any of the equipment used in connection with the secondary recovery program, and including the drilling and equipping of any injection wells which may be deemed necessary.

In the event any working interest owner or other owner charged with the payment of any obligation provided for by this agreement should fail to pay such owner's proportionate part of any cost allocated as herein provided and remain in default thereof for more than 30 days, the Operators' Committee shall have a first and prior lien upon the leasehold interest of such party or parties and all of the production therefrom until such time as the obligation is fully paid and satisfied, together with interest thereon at the rate of 6% per annum. The Operators' Committee shall have the right to foreclose any such lien in the manner provided by law for the foreclosure of mortgage deeds, and any purchaser of the oil, gas and other hydrocarbon substances allocated to the lease on account of which the deficiency exists shall upon notice from the Operators' Committee or its duly authorized representative impound all payments due such delinquent owner or owners until the delinquent account has been paid or any controversy with respect thereto finally settled.

10. MAINTENANCE OF WELLS. The owners or operators of each

lease committed hereto from which oil or gas or other hydrocarbon substances are being produced shall maintain all wells on their respective leases at their own cost, risk and expense. All wells shall be maintained in a first class condition and in accordance with good oil field practice. All wells shall be subject to inspection by the superintendent, engineer and any authorized representatives or employees of the Operators' Committee or Executive Committee, and they shall have the right to test the same from time to time for the purpose of determining their condition. Whenever any well is found not to be in a condition favorable for obtaining the most efficient production, the operator or owners thereof shall upon notice in the form prescribed by the Operators' Committee commence operations within 24 hours thereafter to remedy such condition, failing in which the Operators' Committee or anyone having the authority delegated by the Operators' Committee shall have the right to undertake such operations, looking to placing such well in proper condition, and the cost thereof shall be charged to the owner or owners of such well as their respective interests appear.

11. NEW DEVELOPMENT The owner or owners of any oil and gas lease within the cooperative area having therein a 40-acre legal subdivision upon which a well has not been drilled shall have the right to drill a well thereon according to the regular well spacing pattern to the "Queen" or "Red" Sand formation, subject to the approval of the Commission. In the event any such well is completed as a well capable of producing from said formation an amount of oil equal to or in excess of the average daily production of all of the producing wells within the cooperative area as of July 1, 1951, such owner or owners shall be entitled to have allocated to said well out of the total production from the cooperative area an amount equal to said average as of July 1, 1951, plus one-half of all production from such well actually in excess of said average. The owner or owners of such well shall pay to the

Operators' Committee an amount equal to such owner's proportionate part on an acreage basis of the depreciated value as of the date of the completion of such well, of the entire plant and facilities acquired, erected, installed and maintained pursuant to the terms of this agreement.

In the event any of the parties hereto, their heirs, personal representatives, successors, or assigns should undertake the drilling of any well or wells within the cooperative area for the purpose of testing, developing or producing oil, gas or other hydrocarbon substances from any formations which may be found below the "Queen" or "Red" Sand, such party or parties shall at their own expense take the necessary steps to protect the "Queen" or "Red" Sand formation so that the drilling of such well or wells will not be a detriment to or adversely affect the secondary recovery program to be carried on pursuant to the terms of this agreement, and the Operators' Committee, subject to the approval of the Commission, shall have the right to prescribe reasonable regulations for the protection of the "Queen" or "Red" Sand formation under such circumstances.

12. CONSERVATION. All operations hereunder shall be conducted so as to provide for the most economical and efficient recovery of oil and gas from the cooperative area without waste as defined by or pursuant to State laws and regulations.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, provisions and conditions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operations for oil or gas on the lands committed to this agreement shall as of the effective date hereof be, and the same are, hereby expressly modified to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect. Each lease committed to this agreement shall continue in full force and effect beyond the term provided therein so long as this agreement remains in effect, and the termination of this agreement shall not affect any lease

which pursuant to the terms thereof or any applicable law shall continue in full force and effect thereafter. All lands of the State of New Mexico which are not subject to any valid and subsisting oil and gas lease shall, if and when leased, be subject to all of the terms and provisions hereof.

14. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Commission and Commissioner and shall continue in full force and effect so long as oil is being produced in paying quantities from the "Queen" or "Red" Sand formation of the lands within the cooperative area. This agreement may be terminated at any time by the Operators' Committee with the approval of the Commissioner, provided members of the Operators' Committee representing 80% of all wells within the cooperative area vote for such termination.

15. APPEARANCES. The Operators' Committee or their duly authorized representative shall after notice to other parties affected have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner or Commission and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations pending before the Commissioner or Commission, provided, however, that any other interested parties shall also have the right at his own expense to appear and to participate in any such proceeding.

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

17. CONTROVERSIES INVOLVING TITLE. In the event the title

to any tract within the cooperative area committed to this agreement is involved in any dispute, the purchaser of the oil may withhold payment or delivery of the allocated portion involved on account thereof without liability for interest, until the dispute is finally settled, provided that no payment of funds due the State of New Mexico shall be withheld.

18. SUBSEQUENT JOINDER. Any leasehold interests within the cooperative area not committed hereto prior to the submission of this agreement for final approval by the Commission and Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or a counterpart thereof, or by executing a ratification agreement upon a form acceptable to the Operators' Committee.

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

20. COVENANTS RUN WITH LAND. The covenants hereof shall be construed as covenants running with the land or leasehold interests committed to this agreement and shall be binding upon the parties hereto and their successors in interest.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective date set opposite their signatures.

DESCRIPTION OF INTERESTS COMMITTED
TO CAPROCK REPRESSURING AGREEMENT
BY REFERENCE TO TRACT NUMBERS IN
EXHIBIT "B" ATTACHED HERETO

SIGNATURES AND ADDRESSES

By _____
President
ATTEST:

Secretary
Address _____

Date _____

Tracts:

By _____
President
ATTEST:

Secretary
Address _____

Date _____

Tracts:

By _____
President
ATTEST:

Secretary
Address _____

Date _____

Tracts:

Tract No.

Address: _____

Date _____

Tract No.

Address: _____

Date _____

Tract No.

Address: _____

Date _____

Tract No.

Address: _____

Date _____

Tract No.

Address _____

Date _____

Tract No.

Address _____

Date _____

STATE OF _____)
COUNTY OF _____) SS

On this ____ day of _____, 195__, before me personally appeared _____ to me personally known who being by me duly sworn, did say that he is the _____ President of _____ and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

Notary Public

STATE OF _____)
COUNTY OF _____) SS

On this ____ day of _____, 195__, before me personally appeared _____ to me personally known who being by me duly sworn did say that he is the _____ President of _____ and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

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Notary Public

STATE OF _____)
COUNTY OF _____) SS

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

My Commission Expires:

Notary Public

STATE OF _____)
COUNTY OF _____) SS

On this ____ day of _____, 195__, before me personally appeared

_____ to me personally known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as _____ free act and deed.

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

My Commission Expires:

Notary Public

STATE OF _____)
COUNTY OF _____) SS

On this ____ day of _____, 195__, before me personally appeared

_____ to me personally known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as _____ free act and deed.

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

My Commission Expires:

Notary Public

STATE OF _____)
COUNTY OF _____) SS

On this ____ day of _____, 195__, before me personally appeared

_____ to me personally known to be the person described in and who executed the foregoing instrument and acknowledged that he executed the same as _____ free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year in this certificate last above written.

My Commission Expires:

Notary Public

STATE OF _____)
COUNTY OF _____) SS

On this ____ day of _____, 195__, before me personally appeared

_____ to me personally known to be the person described in and who executed the foregoing instrument and acknowledged that he executed the same as _____ free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year in this certificate last above written.

My Commission Expires:

Notary Public