

RECEIVED  
MAR 23 1955  
U. S. GEOLOGICAL SURVEY  
ROSWELL, NEW MEXICO

APPLICATION FOR EXTENSION OF TIME FOR COMMENCEMENT OF TEST WELL  
TO THE DIRECTOR OF THE UNITED STATES GEOLOGICAL SURVEY:

Stanolind Oil and Gas Company, as Unit Operator of the Unit Agreement for the Development and Operation of the Welch Unit Area, County of Eddy, State of New Mexico, has heretofore drilled the first test well to a depth of at least 11,500 feet in compliance with Article 9 of said Unit Agreement. Under the terms of Article 9 of said Unit Agreement, the Unit Operator is obligated to commence drilling a second test well within six months of the completion date of the first test well. Welch Unit Well No. 1, located 660' from the north and west lines of Section 21, T-26S, R-27E, Eddy County, New Mexico, the first test well, was drilled to 11,500' without encountering untified substances in paying quantities. Drilling proceeded below this depth, however, in order to evaluate possible deeper pays. Two shows of possible dry gas production were encountered below 11,500'; however, electric logs indicate that the possible productive zones are extremely thin indicating that production in commercial quantities could not reasonably be expected; therefore, the well was plugged and abandoned on September 24, 1954, at a total depth of 12,547'. The well has been left in such condition that it might be re-entered at some future date for a completion attempt in the thin, prospective, pay zones because performance history on this well in such a wildcat area would be most valuable. A diligent effort has been made to interest outside parties in taking over this well for such an attempt, but all efforts to consummate a farmout have been unsuccessful. Within the past few days, outside parties have shown a definite interest in this well. It is for this reason coupled with the fact that a great amount of expense has been incurred in the drilling of this rank wildcat test well which warrants further study and evaluation of present geological and geophysical information with respect to the possibility of additional development and negotiating a farmout that a reasonable extension of time is requested.

Premises considered, Stanolind Oil and Gas Company, Unit Operator under the Welch Unit Agreement, with the approval of the requisite other working interest owners in the unit, hereby makes application to the Director of the United States Geological Survey, pursuant to Article 9 of said Unit Agreement for an extension of six months from and after March 24, 1955, for the commencement of the second test well to be drilled on the unit area so that said test well shall be commenced on or before September 24, 1955.

**ILLEGIBLE**

Copies of this application have been filed with the Commissioner of Public Lands, State of New Mexico, and the Oil Conservation Commission, State of New Mexico.

By telegram directed to the Director of U. S. Geological Survey, Department of the Interior, Regional Supervisor, Corral, New Mexico, and to the Commissioner of Public Lands, Santa Fe, New Mexico, February 10, 1935, Standish advised that it was resigning as Unit Operator of the Hatch Unit. It is Standish's desire that the resignation be considered withdrawn if the requested extension is granted; however, if for any reason the extension is not granted, then it is Standish's request that the resignation stand.

This application is hereby approved this 21st day of March, 1935.

DEPARTMENT OF THE INTERIOR  
BUREAU OF LANDS  
WASHINGTON, D. C.

BY [Signature]  
J. R. Standish, Jr.  
District Exploration Superintendent

The foregoing application is hereby approved this 1st day of April, 1935, and the time for commencement of the lease will be referred to in the foregoing application as being extended to September 24, 1935, subject to like approval by the Commissioner of Public Lands, State of New Mexico.

DEPARTMENT OF THE INTERIOR  
BUREAU OF LANDS  
WASHINGTON, D. C.

BY Thomas B. Nolan  
Acting Director

The foregoing application is hereby approved this \_\_\_\_\_ day of \_\_\_\_\_, 1935, and the time for commencement of the lease will be referred to in the foregoing application as being extended to September 24, 1935.

\_\_\_\_\_  
Commissioner of Public Lands

**ILLEGIBLE**

APPLICATION FOR EXTENSION OF TIME FOR COMMENCEMENT OF TEST WELL

TO THE DIRECTOR OF THE UNITED STATES GEOLOGICAL SURVEY:

Stanolind Oil and Gas Company, as Unit Operator of the Unit Agreement for the Development and Operation of the Welch Unit Area, County of Eddy, State of New Mexico, has heretofore drilled the first test well to a depth of at least 11,500 feet in compliance with Article 9 of said Unit Agreement. Under the terms of Article 9 of said Unit Agreement, the Unit Operator is obligated to commence drilling a second test well within six months of the completion date of the first test well. Welch Unit Well No. 1, located 660' from the north and west lines of Section 21, T-26S, R-27E, Eddy County, New Mexico, the first test well, was drilled to 11,500' without encountering unitized substances in paying quantities. Drilling proceeded below this depth, however, in order to evaluate possible deeper pays. Two shows of possible dry gas production were encountered below 11,500'; however, electric logs indicate that the possible productive zones are extremely thin indicating that production in commercial quantities could not reasonably be expected; therefore, the well was plugged and abandoned on September 24, 1954, at a total depth of 12,547'. The well has been left in such condition that it might be re-entered at some future date for a completion attempt in the thin, prospective, pay zones because performance history on this well in such a wildcat area would be most valuable. A diligent effort has been made to interest outside parties in taking over this well for such an attempt, but all efforts to consummate a farmout have been unsuccessful. Within the past few days, outside parties have shown a definite interest in this well. It is for this reason coupled with the fact that a great amount of expense has been incurred in the drilling of this rank wildcat test well which warrants further study and evaluation of present geological and geophysical information with respect to the possibilities of additional development and negotiating a farmout that a reasonable extension of time is requested.

Premises considered, Stanolind Oil and Gas Company, Unit Operator under the Welch Unit Agreement, with the approval of the requisite other working interest owners in the unit, hereby makes application to the Director of the United States Geological Survey, pursuant to Article 9 of said Unit Agreement for an extension of six months from and after March 24, 1955, for the commencement of the second test well to be drilled on the unit area so that said test well shall be commenced on or before September 24, 1955.

Copies of this application have been filed with the Commissioner of Public Lands, State of New Mexico, and the Oil Conservation Commission, State of New Mexico.

By telegrams directed to the Director of U. S. Geological Survey, Department of the Interior, % Regional Supervisor, Roswell, New Mexico, and to the Commissioner of Public Lands, Santa Fe, New Mexico, on March 16, 1955, Stanolind advised that it was resigning as Unit Operator of the Welch Unit. It is Stanolind's desire that the resignation be considered withdrawn if the requested extension is granted; however, if for some unforeseen reason the requested extension is refused, then it is Stanolind's request that the resignation stand.

This application is hereby made this 23rd day of March, 1955.

STANOLIND OIL AND GAS COMPANY  
UNIT OPERATOR OF THE  
WELCH UNIT AGREEMENT

BY \_\_\_\_\_  
W. A. Blankenship, Jr.  
District Exploration Superintendent

The foregoing application is hereby approved this \_\_\_\_\_ day of \_\_\_\_\_, 1955, and the time for commencement of the test well referred to in the foregoing application is hereby extended to September 24, 1955.

DIRECTOR OF THE UNITED STATES  
GEOLOGICAL SURVEY

BY \_\_\_\_\_

The foregoing application is hereby approved this 23 day of March, 1955, and the time for commencement of the test well referred to in the foregoing application is hereby extended to September 24, 1955. (Subject to like approval by the United States Geological Survey.)

\_\_\_\_\_  
Commissioner of Public Lands



APPLICATION FOR EXTENSION OF TIME FOR COMMENCEMENT OF TEST WELL

TO THE DIRECTOR OF THE UNITED STATES GEOLOGICAL SURVEY:

50-2-607

Stanolind Oil and Gas Company, as Unit Operator of the Unit Agreement for the Development and Operation of the Welch Unit Area, County of Eddy, State of New Mexico, has heretofore drilled the first test well to a depth of at least 11,500 feet in compliance with Article 9 of said Unit Agreement. Under the terms of Article 9 of said Unit Agreement, the Unit Operator is obligated to commence drilling a second test well within six months of the completion date of the first test well. Welch Unit Well No. 1, located 660' from the north and west lines of Section 21, T-26S, R-27E, Eddy County, New Mexico, the first test well, was drilled to 11,500' without encountering unitized substances in paying quantities. Drilling proceeded below this depth, however, in order to evaluate possible deeper pays. Two shows of possible dry gas production were encountered below 11,500'; however, electric logs indicate that the possible productive zones are extremely thin indicating that production in commercial quantities could not reasonably be expected; therefore, the well was plugged and abandoned on September 24, 1954, at a total depth of 12,547'. The well has been left in such condition that it might be re-entered at some future date for a completion attempt in the thin, prospective, pay zones because performance history on this well in such a wildcat area would be most valuable. A diligent effort has been made to interest outside parties in taking over this well for such an attempt, but all efforts to consummate a farmout have been unsuccessful. Within the past few days, outside parties have shown a definite interest in this well. It is for this reason coupled with the fact that a great amount of expense has been incurred in the drilling of this rank wildcat test well which warrants further study and evaluation of present geological and geophysical information with respect to the possibilities of additional development and negotiating a farmout that a reasonable extension of time is requested.

Premises considered, Stanolind Oil and Gas Company, Unit Operator under the Welch Unit Agreement, with the approval of the requisite other working interest owners in the unit, hereby makes application to the Director of the United States Geological Survey, pursuant to Article 9 of said Unit Agreement for an extension of six months from and after March 24, 1955, for the commencement of the second test well to be ~~drilled~~ drilled on the unit area so that said test well shall be commenced on or before to September 24, 1955.

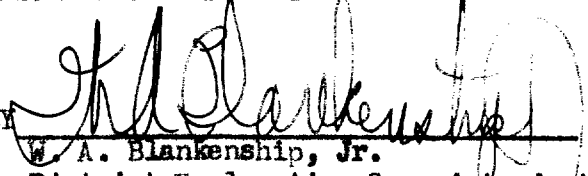
10/11/55

Copies of this application have been filed with the Commissioner of Public Lands, State of New Mexico, and the Oil Conservation Commission, State of New Mexico.

By telegrams directed to the Director of U. S. Geological Survey, Department of the Interior, Regional Supervisor, Roswell, New Mexico, and to the Commissioner of Public Lands, Santa Fe, New Mexico, on March 16, 1955, Stanolind advised that it was resigning as Unit Operator of the Welch Unit. It is Stanolind's desire that the resignation be considered withdrawn if the requested extension is granted; however, if for some unforeseen reason the requested extension is refused, then it is Stanolind's request that the resignation stand.

This application is hereby made this 23rd day of March, 1955.

STANOLIND OIL AND GAS COMPANY  
UNIT OPERATOR OF THE  
WELCH UNIT AGREEMENT

BY   
W. A. Blankenship, Jr.  
District Exploration Superintendent

The foregoing application is hereby approved this \_\_\_\_\_ day of \_\_\_\_\_, 1955, and the time for commencement of the test well referred to in the foregoing application is hereby extended to September 24, 1955.

DIRECTOR OF THE UNITED STATES  
GEOLOGICAL SURVEY

BY \_\_\_\_\_

The foregoing application is hereby approved this \_\_\_\_\_ day of \_\_\_\_\_, 1955, and the time for commencement of the test well referred to in the foregoing application is hereby extended to September 24, 1955.

\_\_\_\_\_  
Commissioner of Public Lands

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

January 22, 1954

Mr. R. G. Hiltz  
Stanolind Oil & Gas Company  
Box 1410  
FORT WORTH, TEXAS

Dear Bob:

RE: Order R-405 in Case 609

We enclose two signed copies of the Welch Unit Agreement  
Order (R-405) issued by the Commission on January 20, 1954.

Very truly yours,

W. B. Macey  
Chief Engineer

WBM:ar

C  
O  
P  
Y

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE NO. 609  
ORDER NO. R-405

IN THE MATTER OF THE APPLICATION OF  
STANOLIND OIL & GAS COMPANY FOR APPROVAL  
OF THE WELCH UNIT AGREEMENT FOR THE DEVELOP-  
MENT AND OPERATION OF A UNIT AREA EMBRACING  
18,694.16 ACRES, MORE OR LESS, IN EDDY COUNTY,  
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on December 17, 1953, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 20<sup>th</sup> day of January, 1954, the Commission, a quorum being present, having before it for consideration the testimony adduced at the hearing of said case and being fully advised in the premises,

FINDS:

(1) That due notice having been given as required by law, the Commission has jurisdiction of this case and the subject matter thereof.

(2) That the proposed unit plan will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

That the order herein shall be known as:

'THE WELCH UNIT AGREEMENT ORDER.'

SECTION 1: (a) That the project herein shall be known as the Welch Unit Agreement and shall hereafter be referred to as the Project,

(b) That the plan by which the Project shall be operated shall be embraced in the form of a unit agreement for the development and operation of the Welch Unit Area referred to in the Petitioner's petition and filed with said petition, and such plan shall be known as the Welch Unit Agreement Plan.

SECTION 2: That the Welch Unit Agreement Plan shall be and is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval of said agreement shall not be considered as waiving or relinquishing in any manner any rights, duties, or obligations which are now or may hereafter be vested in the New Mexico Oil Conservation Commission by law relative to the supervision and control of operations for exploration and development of any lands committed to said Welch Unit Agreement or relative to the production of oil or gas therefrom.

SECTION 3: (a) That the Unit Area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

Twp. 26 South, Rge. 26 East

Section 1: E/2 E/2

Section 12: E/2 E/2

Section 13: E/2

Section 24: All

Section 25: E/2 E/2



Twp. 25 South, Rge. 27 East

Section 29: S/2  
Section 30: S/2  
Sections 31 and 32: All  
Section 33: W/2, SE/4

Twp. 26 South, Rge. 27 East

Section 3: S/2 NE/4, W/2, SE/4  
Sections 4 - 10, incl., all  
Section 11: W/2  
Section 14: W/2  
Sections 15 - 22, incl., all  
Section 23: W/2  
Section 26: NW/4  
Sections 27 - 30, incl., all  
Sections 31 - 34, incl. (fractional), all

(Total unit area embraces 18,694.16 acres, more or less.)

(b) The unit area may be enlarged or diminished, as provided in said plan.


SECTION 4: That the unit operator shall file with the Commission an executed original or executed counterpart thereof of the Welch Unit Agreement not later than 30 days after the effective date thereof.

SECTION 5: That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the effective date thereof may thereafter become a party thereto by subscribing to such agreement or a counterpart thereof. The unit operator shall file with the Commission within 30 days an original or any such counterpart.

SECTION 6: That this order shall become effective on the first day of the calendar month next following the approval of the Commissioner of Public Lands and the Director of the United States Geological Survey and shall terminate ipso facto on the termination of said unit agreement. The last unit operator shall immediately notify the Commission in writing of such termination.

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
Edwin L. Mechem, Chairman

  
E. S. Walker, Member

  
R. R. Spurrier, Member and Secretary

S E A L

# STANOLIND OIL AND GAS COMPANY

MAIN OFFICE 000

STANOLIND BUILDING

TULSA, OKLAHOMA

1954 APR 13 AM 9:37

PRODUCING DEPARTMENT  
G. B. JENKINSON  
UNITIZATION MANAGER

April 13, 1954

File: GBJ-41.536

Re: Welch Unit  
Eddy County,  
New Mexico

Oil Conservation Commission  
State of New Mexico  
Santa Fe, New Mexico

Gentlemen:

Enclosed herewith for your files please find one original copy of "Ratification and Joinder to Unit Agreement" executed by the Humble Oil and Refining Company. This instrument serves to commit Humble's joinder to the Welch Unit and said joinder has been accepted by Stanolind Oil and Gas Company, Unit Operator.

Yours very truly,

  
G. B. Jenkinson

JEM:eo

Enclosure

cc: Commissioner of Public Lands  
State of New Mexico  
Santa Fe, New Mexico

RATIFICATION AND JOINDER OF UNIT AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Welch Unit Area, County of Eddy, State of New Mexico, in form approved on behalf of the Secretary of the Interior, the undersigned owners of lands or leases, or interests therein or royalties presently held or which may arise under existing option agreements, or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, as may appear, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior or his duly authorized representative as applicable to said several lands and interests, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the term of said Unit Agreement, agree that the drilling, development and producing requirements of all leases and other contracts in which their several rights and interest are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and gas duly made at contract rates applied to the production allocated under said Unit Agreement to the particular lands to which such rights or interests do or shall apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

This Ratification and Joinder of Unit Agreement may be executed in any number or 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, and when so executed shall be binding upon the undersigned, his heirs, devisees, assigns or successors in interest.

SIGNATURES AND ADDRESSES

Name _____	Name _____
Address _____	Address _____
_____	_____
Name _____	Name _____
Address _____	Address _____
_____	_____

ATTEST:

*B. D. Barrett*  
Asst. Secretary

PARTY: HUMBLE OIL & REFINING COMPANY

By *Morgan J. Davis*  
Vice-President

Form Approved

By *W. M.*

TRADE O. K.

W. A. MALEY

By *W. M.*

ACCEPTED:

STANOLIND OIL AND GAS COMPANY,  
UNIT OPERATOR

ATTEST:

*Ray A. McElroy*  
Asst. Secretary

By *Frank S. Henderson*  
VICE PRESIDENT



ACKNOWLEDGEMENT OF INDIVIDUAL

State of )

County of )

On this \_\_\_\_ day of \_\_\_\_\_, 19\_\_, before  
me personally appeared \_\_\_\_\_

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

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

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

My Commission expires:

\_\_\_\_\_

ACKNOWLEDGEMENT OF CORPORATION

State of TEXAS )

County of HARRIS )

On this 25th day of March, 1954, before  
me appeared MORGAN J. DAVIS

to me personally known who being by me duly sworn, did say that  
he is the VICE PRESIDENT of the \_\_\_\_\_

HUMBLE OIL & REFINING COMPANY

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 that said MORGAN J. DAVIS  
acknowledged said instrument to be the free act and deed of said  
corporation.

I, WITNESS WHEREOF, I have hereunto set my official  
signature and affixed my notarial seal the day and year first  
above written.

 WAYNE LEHEW  
Notary Public

My Commission expires:

My Commission Expires June 1, 1955

\_\_\_\_\_

*Sakthi*  
*for*

UNIT AGREEMENT  
WELCH UNIT AREA  
COUNTY OF EDDY  
STATE OF NEW MEXICO

I N D E X

<u>Section</u>	<u>Title</u>	<u>Page</u>
	Preliminary Recitals	1
1.	ENABLING ACT AND REGULATIONS	2
2.	UNIT AREA	2
3.	UNITIZED SUBSTANCES	4
4.	UNIT OPERATOR	4
5.	RESIGNATION OR REMOVAL OF UNIT OPERATOR	5
6.	SUCCESSOR UNIT OPERATOR	6
7.	ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT	7
8.	RIGHTS AND OBLIGATIONS OF UNIT OPERATOR	7
9.	DRILLING TO DISCOVERY	8
10.	PLAN OF FURTHER DEVELOPMENT AND OPERATION	9
11.	PARTICIPATION AFTER DISCOVERY	10
12.	ALLOCATION OF PRODUCTION	12
13.	DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS	13
14.	ROYALTY SETTLEMENT	14
15.	RENTAL SETTLEMENT	15
16.	CONSERVATION	16
17.	DRAINAGE	16
18.	LEASES AND CONTRACTS CONFORMED AND EXTENDED	16
19.	COVENANTS RUN WITH LAND	18
20.	EFFECTIVE DATE AND TERM	19
21.	RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION	20
22.	CONFLICT OF SUPERVISION	20
23.	APPEARANCES	21
24.	NOTICES	21
25.	NO WAIVER OF CERTAIN RIGHTS	22
26.	UNAVOIDABLE DELAY	22
27.	FAIR EMPLOYMENT	22
28.	LOSS OF TITLE	22
29.	NON-JOINDER AND SUBSEQUENT JOINDER	24
30.	COUNTERPARTS	24
31.	SURRENDER	25
32.	ROYALTY OWNERS' TAXES	27
33.	NO PARTNERSHIP	28
	Exhibit "A" (Map)	
	Exhibit "B" (Description of interests subject to agreement)	

UNIT AGREEMENT FOR THE DEVELOPMENT AND  
OPERATION OF THE WELCH UNIT AREA,  
COUNTY OF EDDY, STATE OF NEW MEXICO

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

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

WHEREAS, the term "Working Interest" as used herein shall mean the interest held in unitized substances or in lands containing unitized substances by virtue of a lease, operating agreement, fee title, or otherwise, which is chargeable with and obligated to pay or bear all or a portion of the cost of drilling, developing, producing, and operating the land under the unit or cooperative agreement. The right delegated to the unit operator as such by this unit agreement is not to be regarded as a working interest; and

WHEREAS, the act of February 25, 1920, 41 Stat. 437, as amended by the act of August 8, 1946, 60 Stat. 950, 30 U. S. C. Secs. 181, et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field or like area, or any part thereof, for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Chap. 88, Laws 1943) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Chap. 168, Laws 1949) to approve this agreement and the conservation provisions hereof; and

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

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

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

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

2. UNIT AREA: The following-described land is hereby designated and recognized as constituting the unit area:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

T-26S - R-26E

Sec. 1 - E/2 E/2  
Sec. 12 - E/2 E/2  
Sec. 13 - E/2  
Sec. 24 - All  
Sec. 25 - E/2 E/2

T-25S - R-27E

Sec. 29 - S/2  
Sec. 30 - S/2  
Secs. 31 and 32 - All  
Sec. 33 - W/2, SE/4

T-26S - R-27E

Sec. 3 - S/2 NE/4, W/2, SE/4  
Sec. 4 to 10 Inclusive - All  
Sec. 11 - W/2  
Sec. 14 - W/2  
Secs. 15 to 22 Inclusive - All  
Sec. 23 - W/2  
Sec. 26 - NW/4  
Secs. 27 to 30 Inclusive - All  
Secs. 31 to 34 Inclusive (Fractional) - All

Total Unit Area embraces 18,694.16 acres, more or less.

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

The above-described unit area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably neces-



sary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

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

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

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor and Commissioner evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator.

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

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

3. UNITIZED SUBSTANCES: All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

4. UNIT OPERATOR: Stanolind Oil and Gas Company is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees

and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners, the Director and the Commissioner, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor and 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 expiration of said period.

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

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

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as herein-above provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator: Provided, That, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall

have been approved by the Director and Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and Commissioner at their election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT:

If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between the unit agreement and the unit operating agreement, this unit agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section shall be filed with the Supervisor and one true copy with the Commissioner.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary

or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY: Within 6 months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location 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, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Pennsylvanian formations have been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor as to wells on Federal lands, or the Commission as to wells on State lands or Patented lands that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 11,500 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 6 months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances

in paying quantities is completed to the satisfaction of said Supervisor and Commission, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to comply with the drilling provisions of this section, the Director and Commissioner may, after reasonable notice to the Unit Operator, and each working interest owner, lessee, and lessor at their last known addresses, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION:

Within 6 months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor, the Commissioner and the Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Commissioner, and the Commission, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor, the Commissioner, and the Commission a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete

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

11. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor and Commissioner, the Unit Operator shall submit for approval by the Director, the Commissioner and the Commission, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director, the Commissioner and the

Commission to constitute a participating area, effective as of the date of first production. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director, the Commissioner, and the Commission. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, unless a more appropriate effective date is specified in the schedule. No land shall be excluded from a participating area on account of depletion of the unitized substances.

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

In the absence of agreement at any time between the Unit Operator and the Director, the Commissioner, and the Commission as to the proper



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

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

12. ALLOCATION OF PRODUCTION: All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, the Commissioner and the Commission, or unavoidably lost, shall be deemed to be produced

equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

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

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly

be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

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

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

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be

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

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

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

on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases, or may be reduced and suspended upon the order of the Commissioner of Public Lands of the State of New Mexico pursuant to applicable laws and regulations.

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

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

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

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas of lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto holding interests embracing unitized land of the United States or of the State of New Mexico hereby consent that the Secretary of the Interior,

hereinafter referred to as "Secretary", and the Commissioner, respectively, shall, and said Secretary and Commissioner by their approval hereof, or by the approval hereof by their duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

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

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands other than those of

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such land remains committed hereto, provided unitized substances are discovered in paying quantities within the unit area prior to the expiration date of the primary term of such lease.

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

(g) Any lease having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts.

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

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

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

This agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the owners of working interests signatory



hereto, with the approval of the Director and the Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION:

The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; 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 shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

22. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the working interest owners nor any of them shall be subject to any forfeiture, termination, or expiration of any rights hereunder or under any

leases or contracts subject hereto, or to any penalty or liability for delay or failure in whole or in part to comply therewith to the extent that the said Unit Operator, working interest owners or any of them are hindered, delayed, or prevented from complying therewith by reason of failure of the Unit Operator to obtain with the exercise of due diligence the concurrence of the representatives of the United States and the representatives of the State of New Mexico in and about any matters or thing concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions 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 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. APPEARANCES: Unit Operator shall, after notice to other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Department of the Interior and to appeal from orders issued under the regulations of said Department or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

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

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

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

27. FAIR EMPLOYMENT: The Unit Operator shall not discriminate against any employee or applicant for employment because of race, creed, color or national origin, and an identical provision shall be incorporated in all sub-contracts.

28. LOSS OF TITLE: In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit 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. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of funds due the United States or the State

of New Mexico should be withheld, but such funds shall be deposited as directed by the Supervisor and the Commissioner of Public Lands of the State of New Mexico, respectively, 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.

In order to avoid title failures which might incidentally cause the title to a working interest or interests to fail, the owners of (a) the surface rights to lands lying within the unit area, (b) severed minerals or royalty interests in said lands, and (c) improvements located on said lands but 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 or in the unit operating agreement. If any ad valorem taxes are not paid by such owners responsible therefor when due, the 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 the Unit Operator makes any such payment or redeems any such property from tax sale, the Unit Operator shall be reimbursed therefor by the working interest owners in proportion to their respective percentages of participation; and Unit Operator shall withhold from the proceeds otherwise due to said delinquent taxpayer or taxpayers, an amount sufficient to defray the costs of such payment or redemption, such withholdings to be distributed among the working interest owners in proportion to their respective contributions toward such payment or redemption.

29. NON-JOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director, the Commissioner and the Unit Operator prior to the approval of this agreement by the Director and the Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right to subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Prior to final approval hereof, joinder by any owner of a non-working interest must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. Except as may otherwise herein be provided subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor and the Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Director or Commissioner.

30. COUNTERPARTS: This agreement may be executed in any number of counterparts no one of which needs to be executed by all parties

or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above-described unit area.

31. SURRENDER: Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party in any lease, sub-lease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

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

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

(1) Execute this agreement and the unit operating agreement as a working interest owner, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(2) Again lease such lands but only under the condition that the holder of such lease shall within thirty (30) days after such lands are so leased execute this agreement and the unit operating agreement as to each participating area theretofore established hereunder, effective as though such land has remained continuously subject to this agreement and the unit operating agreement.

(3) Operate or provide for the operation of such land independently of this agreement as to any part thereof or any oil or gas deposits therein not then included within a participating area.

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

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

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

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

32. ROYALTY OWNERS' TAXES: Each royalty owner shall render and pay all ad valorem taxes, including ad valorem taxes measured by production levied against its royalty or mineral interest. Unit Operator shall pay, as an agent for the working interest owners, each royalty owner's share of all taxes other than ad valorem taxes levied on, or measured by, the unitized substances in and under, or that may be produced, gathered, and sold from the lands subject hereto, or upon the proceeds or net proceeds



33. NO PARTNERSHIP: It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

UNIT OPERATOR AND WORKING INTEREST OWNER

\_\_\_\_\_  
Assistant Secretary

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

## WORKING INTEREST OWNERS

\_\_\_\_\_  
Secretary

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

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

- 28 -

WORKING INTEREST OWNERS

ATTEST: DATE: HELMERICK & PAYNE, INC.

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

Address: First National Bank Bldg., Tulsa Oklahoma

ATTEST: DATE: LARIO OIL & GAS COMPANY

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

Address:

ATTEST: DATE: MAGNOLIA PETROLEUM COMPANY

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

Address:

ATTEST: DATE: SEABOARD OIL COMPANY OF DELAWARE

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

Address:

ATTEST: DATE: SUN OIL COMPANY

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

Address:

ATTEST: DATE: SUNSHINE ROYALTY COMPANY

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

Address:

ATTEST: DATE: TIDE WATER ASSOCIATED OIL COMPANY

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

Address:

WORKING INTEREST OWNERS

DATE:

Address:

James H. Snowden

Address:

Date:

Address:

Date:

Address:

Date:

Address:

Date:

Address:

Date:

Address:

Date:

Address:

Date:

Address:

Date:

Address:

Date:

Address:

Date:

Address:

Date:

Address:

Date:

OTHER PARTIES

Address: _____	Date: _____	_____
_____	_____	_____
Address: _____	Date: _____	_____
_____	_____	_____
Address: _____	Date: _____	_____
_____	_____	_____
Address: _____	Date: _____	_____
_____	_____	_____
Address: _____	Date: _____	_____
_____	_____	_____
Address: _____	Date: _____	_____
_____	_____	_____
Address: _____	Date: _____	_____
_____	_____	_____
Address: _____	Date: _____	_____
_____	_____	_____
Address: _____	Date: _____	_____
_____	_____	_____
Address: _____	Date: _____	_____
_____	_____	_____

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

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is the \_\_\_\_\_ President of \_\_\_\_\_ and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said \_\_\_\_\_ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and notarial seal this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

My commission expires:

\_\_\_\_\_

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

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

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is the \_\_\_\_\_ President of \_\_\_\_\_ and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said \_\_\_\_\_ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and notarial seal this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

My commission expires:

\_\_\_\_\_

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

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

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn did say that he is the \_\_\_\_\_ President of \_\_\_\_\_ and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said \_\_\_\_\_ acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and notarial seal this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

My commission expires:

\_\_\_\_\_

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

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

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

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_ to me known to be the person described in and who executed and delivered the foregoing instrument, and acknowledged to me that \_\_\_\_\_ executed the same as \_\_\_\_\_ free act and deed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

My commission expires:

\_\_\_\_\_

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

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

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

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_ to me known to be the person described in and who executed and delivered the foregoing instrument, and acknowledged to me that \_\_\_\_\_ executed the same as \_\_\_\_\_ free act and deed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

My commission expires:

\_\_\_\_\_

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

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

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

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_ to me known to be the person described in and who executed and delivered the foregoing instrument, and acknowledged to me that \_\_\_\_\_ executed the same as \_\_\_\_\_ free act and deed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

My commission expires:

\_\_\_\_\_

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

RATIFICATION AND JOINDER OF UNIT AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Welch Unit Area, County of Eddy, State of New Mexico, in form approved on behalf of the Secretary of the Interior, the undersigned owners of lands or leases, or interests therein or royalties presently held or which may arise under existing option agreements, or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, as may appear, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior or his duly authorized representative as applicable to said several lands and interests, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the term of said Unit Agreement, agree that the drilling, development and producing requirements of all leases and other contracts in which their several rights and interest are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and gas duly made at contract rates applied to the production allocated under said Unit Agreement to the particular lands to which such rights or interests do or shall apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

This Ratification and Joinder of Unit Agreement may be executed in any number or 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, and when so executed shall be binding upon the undersigned, his heirs, devisees, assigns or successors in interest.

SIGNATURES AND ADDRESSES

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_