UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE SOUTH CROSSROADS UNIT AREA
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the first day of March, 1954, by and between Texas Pacific Coal and Oil Company and Union Oil Company of California, sometimes hereinafter 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 or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico (hereinafter referred to as the "Commissioner") is authorized by Acts of the Legislature (Chap. 88, Laws 1943, as amended by Chap. 162, Laws 1951) to consent to and approve the development or operation of State Lands under agreements made by lessees of State Lands jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by Act of the Legislature (Chap. 72, Laws 1935) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto own the entire working interest in the South Crossroads Unit Area covering the land hereinafter described, and therefore have 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 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. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

All of Section Ten (10), Township Ten (10) South, Range Thirty-six (36) East, in Lea County, New Mexico, containing 640 acres of land, 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. Exhibit "B" attached hereto is a schedule showing the acreage, percentage, and kind of ownership of the 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. If and whenever the unit area is expanded by the procedure hereinafter set out, Exhibits "A" and "B" shall be revised by the Unit Operator to conform with said expansion.

The above described unit area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Commissioner or of any of the parties hereto owning, in the aggregate, 50% of the oil and gas leasehold estate in and to the unit area, shall prepare a notice of proposed expansion 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 Commissioner and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor who have interests in the unit area, 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 Commissioner evidence of mailing of the notice of expansion 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 shall become effective as of the date prescribed in the notice thereof if and after (1) the same shall have been approved by the Commissioner and (2) the owner of each leasehold which has been added to the unit by reason of said expansion shall have executed the within and foregoing unit agreement and a counterpart of the operating agreement covering said unit area, and shall have reimbursed each of the parties hereto on a mutually agreeable basis, for such owner's proportionate share of all costs and expenses theretofore incurred in developing and operating the unit area; provided however, that, except by mutual consent of all parties hereto, no such expansion of the unit area shall be approved unless (1) each lease or interest therein which is proposed to be added to the unit area shall have been proved by actual drilling to be productive of oil or gas in commercial quantities; and (2) such expansion is approved by the owners of at least 90% of the oil and gas leasehold interest in and to the unit area on a surface acreage basis.

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

2. 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".

3. UNIT OPERATOR. Texas Pacific Coal and Oil Company, a corporation, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time provided

a successor Unit Operator has been selected and approved and has agreed to accept the duties and responsibilities of the Unit Operator effective upon the relinquishment of such duties and responsibilities by the retiring Unit Operator. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

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 Commissioner.

The resignation or removal of the Unit Operator under this agreement shall not terminate his 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.

5. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, 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 sufficient additional parties, so as to constitute in the aggregate not less than 75 per cent of the total working interest, 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 Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS. The Unit Operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses so paid by the Unit Operator shall be apportioned among and borne by the owners of working interests and the Unit Operator reimbursed in accordance with the operating agreement heretofore entered into by and between the Unit Operator and the owners of working interests.

7. RIGHTS AND OELIGATIONS 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 of 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.

8. DRILLING TO DISCOVERY. On or before May 1, 1954, the Unit Operator shall, unless it has already done so, commence operations upon a test well for oil and gas at a mutually agreeable location somewhere upon said Section 10, Township 10 South, Range 36 East, Lea County, New Mexico, and shall prosecute the drilling thereof with due diligence

to test the Devonian formation expected to be encountered at the approximate depth of 13,000 feet unless at a lesser depth unitized substances shall be discovered which can be produced in paying quantities or unless some formation or condition is encountered at a lesser depth which would, in the judgment of the parties hereto owning at least 75 per cent of the working interest in the unit area, make further drilling inadvisable or impracticable.

Any well commenced or completed prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of said test well shall be considered as complying with the drilling requirements hereof. Upon failure to comply with the drilling provisions of this section, the Commissioner may, after reasonable notice to the Unit Operator and each working interest owner at their last known addresses, declare this unit agreement terminated.

9. PARTICIPATION AND ALLOCATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests on an acreage basis within the unit area bear to the total number of acres committed to the unit agreement, and such unitized substances shall be deemed to have been produced from each of the oil and gas leases committed to this agreement; and for the purpose of determining any benefits accruing under this agreement and the distribution of the royalty payable to the State of New Mexico each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease included within the unit bears to the total number of acres committed hereto.

Notwithstanding any provision contained herein to the contrary, each working interest owner shall have the right and privilege, upon the payment or securing the payment of the royalty interest thereon, of receiving in kind or of separately disposing of its proportionate share of the gas and oil saved from the unit area; provided, however, that in the event of the failure or neglect of a non-operator to exercise the right and

privilege of receiving in kind or of separately disposing of its proportionate share of said production, Operator shall during such time as such party elects not to receive in kind or to sell and dispose of its proportionate share of production, have the right to purchase any such oil or gas for its own account at not less than the prevailing market price; or Operator may sell the same to others, in which event each of the parties hereto shall be entitled to receive payment direct for its share of the proceeds of all oil and gas so sold. In the event of such sale, each of the parties shall execute proper division orders or contracts of sale, and in such event as to any proposed contract of sale requiring delivery for a period in excess of that usually demanded by a purchaser of production of like grade and quantity in the area or in excess of one (1) year, the contract must be approved or accepted by the other party or parties. Any extra expenditure incurred by reason of the delivery of such proportionate part of the production to any party shall be borne by such party.

10. ROYALTY AND RENTAL PAYMENT. All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

If Unit Operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, 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 a plan of operations consented to by the Commissioner and approved by 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.

All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

11. 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 laws or regulations.

12. DRAINAGE. The Unit Operator shall take such appropriate and adequate measures consistent with those of a reasonably prudent operator to protect the unitized lands from drainage from wells on lands adjacent thereto.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED. Subject to the provisions of Section 13 (a) herein, the terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of the lands committed to this agreement shall, upon approval hereof by the Commissioner, be, and the same are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, and so that the length of the secondary term as to such lands will be extended, insofar as necessary, to coincide with the term of this agreement but otherwise to remain in full force and effect in accordance with the provisions thereof. Each lease committed to this agreement shall continue in force beyond the term provided therein so long as this agreement remains in effect, provided drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lease committed to this agreement. 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.

13. (a) 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.

14. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in 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, 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.

15. EFFECTIVE DATE AND TERM. This agreement shall become effective (1) upon execution of this agreement, prior to April 1, 1954, by working interest owners in the Unit Area owning 90% of the working interest therein on an acreage basis, and (2) upon approval by the Commissioner, and shall terminate in two years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) development operations are then being conducted on lands comprising the unit area, or (c) a discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities, 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. This agreement may be terminated at any time after the two year period or any extensions thereof, by not less than 75 per cent on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner; provided (1) production of unitized substances in commercial quantities has not been obtained from the unit area, or, having been obtained, has ceased; and (2) development operations are not then being conducted.

16. RATE OF PRODUCTION. All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

17. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation 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 party shall also have the right at his own expense to appear and to participate in any such proceeding.

18. NOTICES. All notices that are required or authorized to be given hereunder except as otherwise specifically provided for herein, shall be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

Texas Pacific Coal and Oil Company
P. O. Box 2110
Fort Worth, Texas

Union Oil Company of California
200 Wilkinson-Foster Building
Midland, Texas

The originating notice to be given under any provision hereof shall be deemed given when received by the party to whom such notice is directed, and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent notice shall

be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, with postage or charges prepaid.

19. 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, war, 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.

20. LOSS OF TITLE. In the event title to any tract or unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the Unit Operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

21. SUBSEQUENT JOINDER. Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to any operating agreement affecting the allocation of costs

of exploration, development and operation. After operations are commenced hereunder, the right of subsequent joinder by a working interest owner shall be subject to all of the requirements of any applicable operating agreement between the working interest owners relative to the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the filing with the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement.

22. EXISTING OPERATING AGREEMENT. In the event of any inconsistency or conflict between this unit agreement and the contemporaneous operating agreement entered into by and between the Unit Operator and the owners of working interests, this unit agreement, to that extent only, shall prevail.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the dates of their respective acknowledgments hereto.

SIGNATURES

DESCRIPTION OF INTERESTS COMMITTED TO SOUTH CROSSROADS UNIT AGREEMENT IN REFERENCE TO TRACT NUMBERS IN EXHIBIT "B" ATTACHED TO UNIT AGREEMENT

TEXAS PACIFIC COAL AND OIL COMPANY — Tracts No. 1 and No. 2

By _____
President

ATTEST:

_____
Secretary

UNIT OPERATOR

UNION OIL COMPANY OF CALIFORNIA — Tract No. 3

By _____
President

ATTEST:

_____
Secretary

NON-OPERATOR

THE STATE OF TEXAS, }
County of Tarrant. }

On this _____ day of _____, 1954, before me personally appeared C. E. Yager, to me personally known, who being by me duly sworn did say that he is the President of Texas Pacific Coal and Oil Company, and that the seal affixed to the foregoing 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 C. E. Yager 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 first above written.

_____
Notary Public

My commission expires
June 1, 1955.

THE STATE OF CALIFORNIA, }
County of _____ }

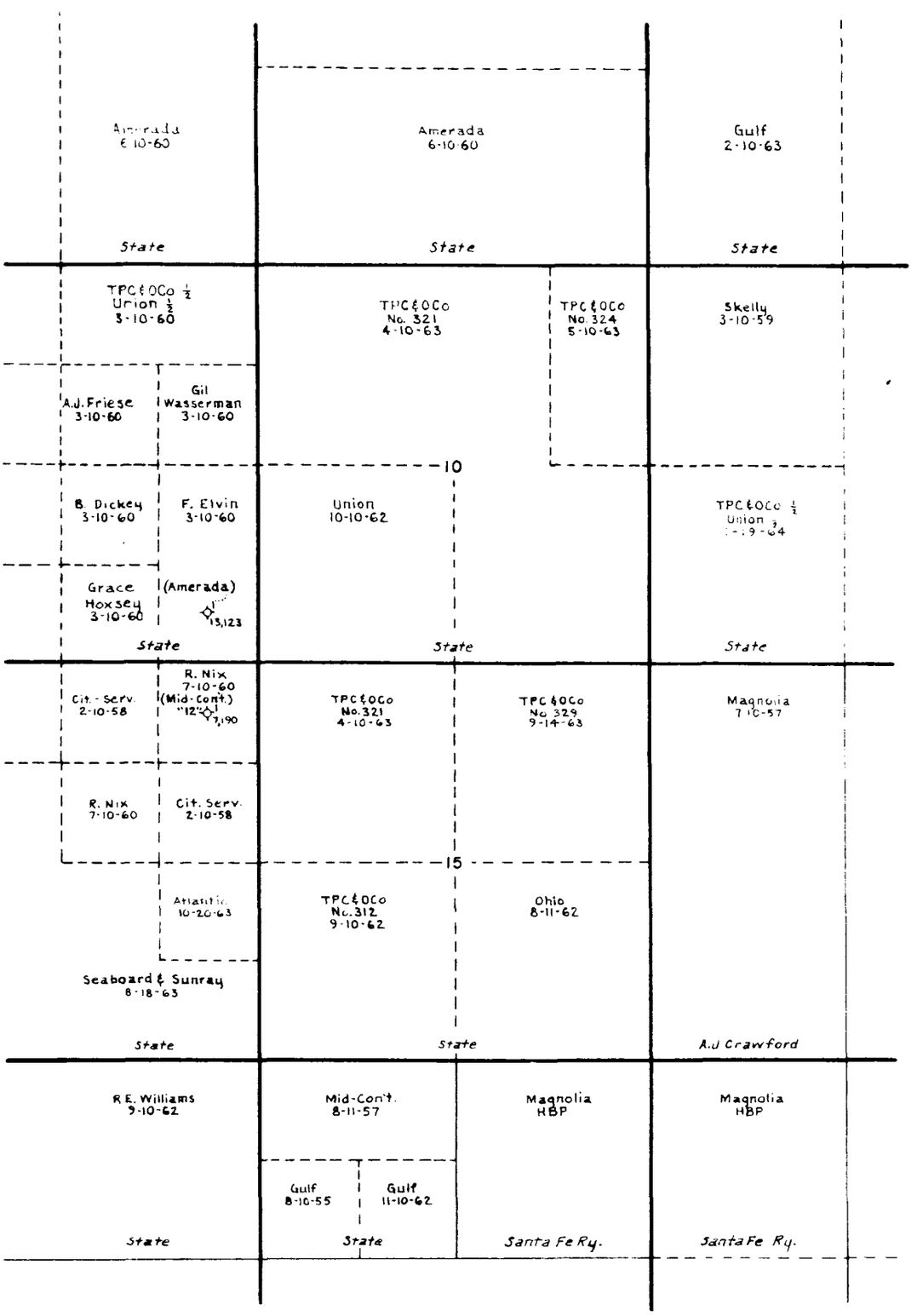
On this _____ day of _____, 1954, before me personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of Union Oil Company of California, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that 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 first above written.

My commission expires: _____

_____

T-10-S R-36-E



SOUTH CROSS ROADS UNIT

SCALE: 1" = 2000'

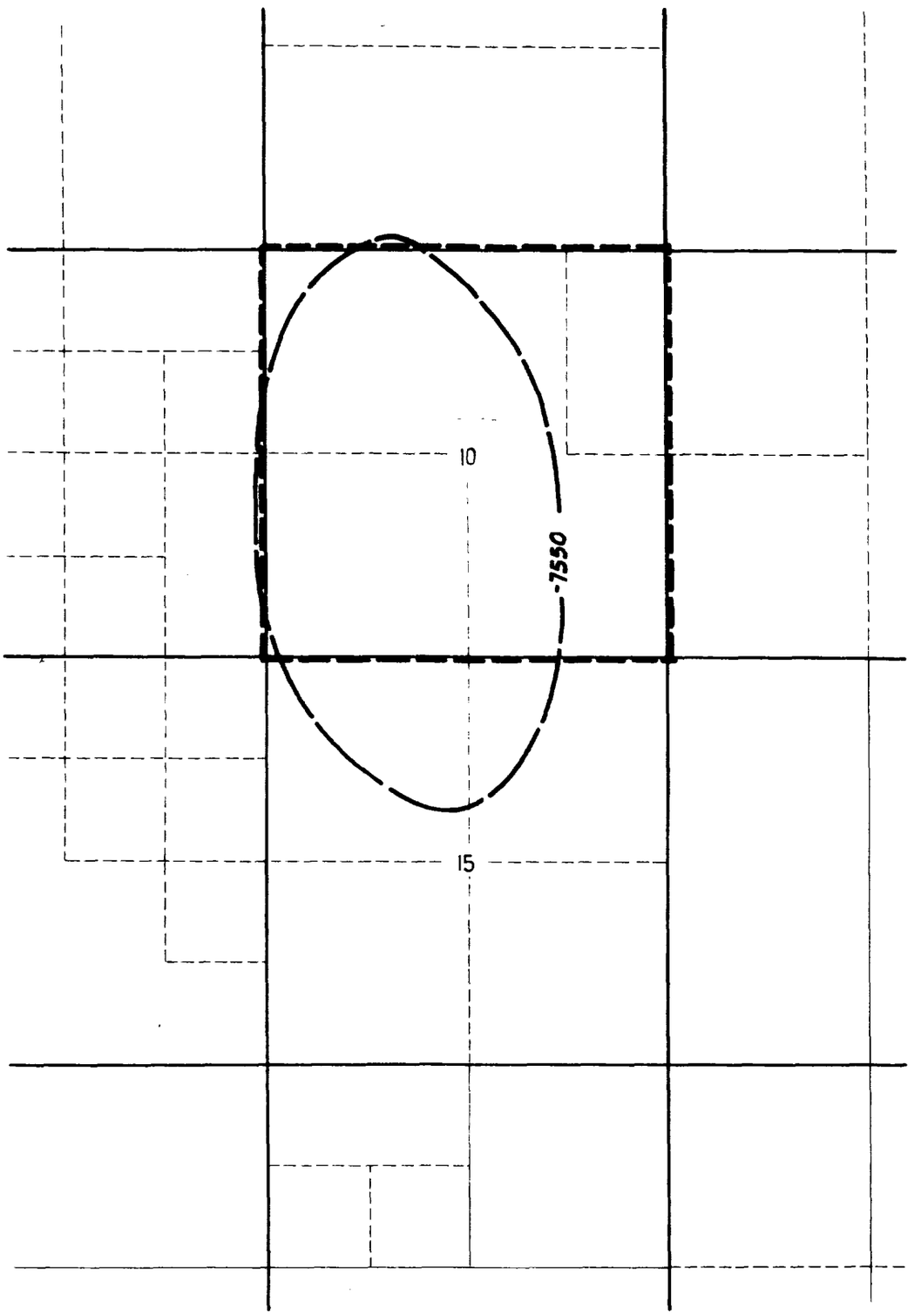
EXHIBIT A

EXHIBIT "B"

SCHEDULE SHOWING
DESCRIPTION OF ACREAGE AND OWNERSHIP OF LEASES ON ALL LANDS
INCLUDED IN THE SOUTH CROSSROADS UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	LEASE NO. AND EXPIRATION DATE OF LEASE	LAND OWNER	RECORD OWNER OF LEASE
1	SE4 & ~~NE4~~ NW4 & W2/NE4 of Sec. 10, T-10-S, R-36-E	480	E-7067 4-10-58	State of New Mexico	Texas Pacific Coal and Oil Company
2	E2/NE4 of Sec. 10, T-10-S, R-36-E	80	E-7103 5-11-58	State of New Mexico	Texas Pacific Coal and Oil Company
3	SW4 of Sec. 10, T-10-S, R-36-E	160	E-6554 10-10-57	State of New Mexico	Union Oil Company of California

T-10-S R-36-E



SOUTH CROSS ROADS UNIT

T 10 S - R 36 E, LEA COUNTY, NEW MEXICO

Approximate Closing Contour

Mississippian Horizon

Scale 1" = 2000'

EXHIBIT C

CERTIFICATE OF APPROVAL
BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO,
OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION OF
SOUTH CROSSROADS UNIT AREA, LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached agreement for the development and operation of the South Crossroads Unit Area, Lea County, New Mexico, dated as of the first day of March, 1954, in which Texas Pacific Coal and Oil Company is designated as Unit Operator and which has been executed by parties owning and holding oil and gas leases embracing more than 90% of the lands within the unit area and upon examination of said Agreement the Commissioner finds:

(a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area;

(b) That under the operations proposed, the State will receive its fair share of the recoverable oil or gas in place under its land in the area affected;

(c) That the agreement is in other respects for the best interest of the State;

(d) That the agreement provides for the unit operation of the area, for the allocation of production, and the sharing of proceeds from a part of the area covered by the agreement on an acreage basis as specified in the agreement.

NOW, THEREFORE, by virtue of the authority conferred upon me by Chap. 88 of the Laws of the State of New Mexico, 1943, as amended by Chap. 162 of the laws of New Mexico, 1951, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said agreement, and all leases embracing lands in the State of New Mexico committed to said Unit Agreement shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said agreement. This approval is subject to all of the provisions of the aforesaid Chap. 88 of the Laws of the State of New Mexico, 1943, as amended by Chap. 162 of the Laws of the State of New Mexico, 1951.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this _____ day of _____, 1954.

_____
Commissioner of Public Lands
of the State of New Mexico

OPERATING AGREEMENT

THIS AGREEMENT made and entered into as of the first day of March, 1954, by and between Texas Pacific Coal and Oil Company, a corporation (whose address is Box 2110, Fort Worth, Texas), hereinafter sometimes referred to as "Operator", and Union Oil Company of California, a corporation (whose address is 200 Wilkinson-Foster Building, Midland, Texas), hereinafter sometimes referred to as "Non-Operator";

W I T N E S S E T H:

WHEREAS, the parties hereto have executed that certain "Unit Agreement for the Development and Operation of the South Crossroads Area, Lea County, New Mexico", (hereinafter sometimes referred to simply as the "Unit Agreement"), pertaining to the following described lands, hereinafter sometimes referred to as the "Unit Area":

> All of Section Ten (10), Township Ten (10) South, Range thirty-six (36) East, in Lea County, New Mexico, containing 640 acres of land, more or less;

and

WHEREAS, the parties hereto are the owners of oil and gas leases covering lands located within the above described Unit Area; and

WHEREAS, with a view of preventing waste and of more economically operating, for the production of oil and gas, the leases within such Unit Area which are owned by the parties hereto, such parties desire to develop and operate jointly said leases on the terms, covenants and conditions thereof and hereof;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the parties have entered into, and by these presents do enter into the following agreement:

I.

CONTRACT AREA

The leases owned by the parties hereto cover and apply to the following described lands, which shall constitute the "Contract Area":

> All of Section Ten (10), Township Ten (10) South, Range thirty-six (36) East, in Lea County, New Mexico, containing 640 acres of land, more or less;

and

This Contract Area shall be developed and operated for the production of oil and gas by Operator, subject to the terms and conditions of this Agreement, and the parties hereto hereby commit to this Agreement their leases in the lands comprising the Contract Area insofar as same cover and apply thereto. Except as provided in Paragraph III hereof, the Contract Area shall never be enlarged unless all parties hereto consent to such enlargement.

II.

INTEREST OF THE PARTIES

The interests of the parties in and to all the production from the Contract Area and in and to the materials and equipment to be installed therein and thereon shall be as follows:

Party	Undivided Interest
Texas Pacific Coal and Oil Company	75%
Union Oil Company of California	25%

and all costs, expenses and liabilities accruing or resulting from the development and the operation of the Contract Area pursuant to this Agreement shall be determined, shared and borne by the parties hereto in said proportions. Likewise, any contributions (acreage, money, dry-hole or otherwise) made to the operator, or any other party hereto, by reason of operations in the Contract Area, shall be shared by the parties hereto in the same proportions.

III.

SUBSEQUENT JOINDER

Except by mutual consent of all parties hereto, no owner of a working interest in any oil and gas lease covering lands outside the Contract Area shall ever be permitted, by reason of such ownership, to join in this agreement or to participate in the production from the Contract Area unless (1) the lease or interest therein which such owner desires to commit to this agreement shall have been proven by actual drilling to be productive of oil or gas in commercial quantities; and (2) such joinder is approved by parties hereto owning at least 90% of the interest set out in Paragraph II hereof. No such joinder shall become effective until the owner of such leasehold interest shall have; (1) executed the Unit Agreement; (2) executed a counterpart of this agreement and an appropriate instrument committing such owner's leasehold interest to this agreement; and (3) reimbursed each of the parties hereto, on a mutually agreeable basis, for such owner's proportionate share of all costs and expenses theretofore incurred in developing and operating the Contract Area. In the event of any such joinder, the Contract Area shall be enlarged to include the leasehold interest committed thereto by such owner, and the schedule of participation set forth in Paragraph II shall be revised to reflect such owner's interest in the Contract Area and the proportionately reduced interests of the other parties hereto.

IV.

AGREEMENT TO BECOME EFFECTIVE

Notwithstanding any other provisions of this agreement, this agreement shall not become effective, nor shall Operator incur any liability hereunder, unless on or before the well commencement date set forth in Paragraph VI below, (1) this agreement shall have been executed by all parties named as parties hereto, (2) all parties named as parties shall have executed the Unit Agreement, and (3) such Unit Agreement shall

have been approved by the Commissioner of Public Lands of the State of New Mexico and his Certificate of Approval has been executed and issued. Should this agreement become effective, it shall be effective as of the date hereof.

V.

TITLES

Any loss of title occurring under any lease contributed hereto shall be borne by the party who contributed such lease to this agreement, provided that there shall be no retroactive adjustment of cost and revenue made prior to final determination of such loss. Loss of title shall mean only the loss of a lease, or an interest therein, through a defect in title. Loss of a lease through failure to obtain production shall be borne by all parties in proportion to their interest in the Contract Area.

VI.

DESIGNATION OF OPERATOR AND TEST WELL

Texas Pacific Coal and Oil Company shall be the Operator hereunder and as such, shall, (subject to the provisions of Paragraph IV hereof) on or before sixty days from this date commence or cause to be commenced the actual drilling of a well for the discovery of oil and gas, at a mutually agreeable location some where upon the land comprising the Unit Area, and shall prosecute the drilling thereof with diligence to a depth of 13,000 feet or to a depth sufficient to test the Devonian formation expected to be encountered at about said depth, unless oil or gas in paying quantities is discovered at a lesser depth, or unless some formation or condition is encountered at a lesser depth which would, in the judgment of the parties hereto owning at least 75% of the interest in the Contract Area, make further drilling unwarranted or impracticable.

VII.

INSURANCE

Operator shall, at all times while operations are conducted on the premises subject hereto, carry insurance to indemnify, protect and save the parties hereto harmless, as follows:

a. Employers' Liability and Workmen's Compensation Insurance, in accordance with the laws of the State where operations are being conducted.

b. Public Liability Insurance with limits of not less than One Hundred Thousand Dollars ($100,000.00) as to any one person and Three Hundred Thousand Dollars ($300,000.00) as to any one accident.

c. Automobile Public Liability Insurance, with limits of not less than One Hundred Thousand Dollars ($100,000.00) as to any one person and Three Hundred Thousand Dollars ($300,000.00) as to any one accident, and Automobile Property Damage Insurance with a limit of not less than Fifty Thousand Dollars ($50,000.00).

d. If steam boilers are used in connection with the operations hereunder, the Operator shall procure and maintain steam boiler and machinery explosion insurance with limits of Fifty Thousand Dollars ($50,000.00) per accident and the premiums therefor shall be treated as a part of the actual cost of development and operations.

No other insurance is to be carried at joint expense and the parties hereto shall assume their own risk, covering their respective interests, on all other insurable risks.

VIII.

OVERRIDING ROYALTIES, OIL PAYMENTS, ETC.

If any oil and gas leases contributed to the Contract Area herein are burdened with any royalties, overriding royalties, payments out of production or any other charges in addition to the usual one-eighth (1/8) royalty, the party contributing any such lease shall bear and assume same out of the interest attributable to them or it hereunder.

IX.

LEASES

It is understood that each of the oil and gas leases contributed by the parties covering the Contract Area is a New Mexico State lease and each party hereto shall comply with all of the terms and provisions of the oil and gas lease contributed by it insofar as the same pertains to the Contract Area, subject, however, to the other terms and provisions of this agreement.

X.

RENTAL PAYMENTS

Each party holding an oil and gas lease subjected to this agreement shall, before the due date, pay all delay rentals which may become due under the lease or leases contributed by it. The burden of paying such rentals shall fall entirely upon the party required to make payment thereof hereunder. In event of failure to make proper payment of any delay rental through mistake, or oversight where such rental is required to continue the lease in force (it being understood that any such failure shall not be regarded as a title failure within the meaning of any other section of this agreement) there shall be no money liability on the part of the party failing to pay such rental, but such party shall make a bona fide effort to secure a new lease covering the same interest, and in event of failure to secure a new lease within a reasonable time, the interests of the parties hereto shall be revised so that the party failing to pay any such rental will not be credited with the ownership of any lease on which rental was required but was not paid. Each party contributing an oil and gas lease or leases to this agreement shall notify each of the other parties contributing oil and gas leases hereto, at least ten (10) days prior to the due date, that it has paid all delay rentals required to continue such leases in full force and effect and will furnish copies of the receipts evidencing such payments.

XI.

CONTROL AND COST OF OPERATION

Operator shall have full control of the premises subjected hereto and, subject to the provisions hereof, shall conduct and manage the development and operation of said premises for the production of oil and gas for the joint account of the parties hereto. Operator shall pay and discharge all costs and expenses incurred pursuant hereto, and shall charge each of the parties hereto with its respective proportionate share upon the cost and expense basis provided in

the Accounting Procedure attached hereto, marked Exhibit "A", and made a part hereof; provided, however, if any provision of said Exhibit "A" conflicts with any provision hereof, the latter shall be deemed to control. Each party hereto other than Operator will promptly pay Operator such costs as are hereunder chargeable to such party. Unless otherwise herein provided, all production of oil and gas from said land, subject to the payment of applicable royalties thereon, and all materials and equipment acquired pursuant hereto shall be owned by the parties hereto in the respective proportions as set out herein. Operator shall at all times keep the joint interest of the parties hereto in and to the leases and equipment thereon free and clear of all labor and mechanic's liens and encumbrances.

XII.

EMPLOYEES

The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees shall be determined by Operator. Such employees shall be employees of Operator.

XIII.

DRILLING OPERATIONS

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the field in which said leases are located. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but in such event the charge therefor shall not exceed the prevailing rate in the field; and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature. All drilling contracts shall contain appropriate provisions that any wells drilled on the Contract Area, when completed, shall not deviate in excess of five degrees from perpendicular.

XIV.

AUTHORITY FOR INCURRING OF EXPENDITURES

Operator, before incurring any items of expenditure in excess of Five Thousand ($5,000.) Dollars, except expenditures for the drilling and equipment of wells mutually agreed upon, shall secure the express consent and approval in writing of each Non-Operator. Operator shall, upon request, furnish each Non-Operator with a copy of Operator's Company authority for expenditures for any project costing in excess of One Thousand Dollars ($1,000.00).

XV.

Notwithstanding any other provisions in this agreement, it shall not be necessary for Operator to secure the consent of any other party hereunder to additional drilling for the joint account or to any expenditure over $5,000.00 for the joint account where, by reason of death, incapacity, disability, insolvency, bankruptcy, or other condition, similar or dissimilar, such other party is incapable of giving such consent. In any such event, the determination of any additional drilling and the extent thereof, and the determination of any expenditure made for the joint account amounting to more than $5,000.00, shall be in the sole judgment of Operator and the unaffected other parties, if any. Such judgment shall be exercised without liability and, unless fraudulently exercised, shall be conclusive.

XVI.

OPERATOR'S LIEN

Operator shall have a lien upon the interest of each Non-Operator which is subjected to this agreement, the oil and gas therefrom, the proceeds thereof and the materials and equipment thereon and therein to secure Operator in the payment of any sum due to Operator hereunder from any Non-Operator. The lien herein provided for shall not extend to any royalty rights attributable to any interests subjected hereto.

XVII.

ADVANCES

Operator, at its election, may require Non-Operators to furnish their proportion of the development and operating costs according to the following conditions:

On or before the first day of each calendar month, Operator shall submit an itemized estimate of such costs for the succeeding calendar month to Non-Operators. Within fifteen (15) days thereafter, Non-Operators shall pay, or secure the payment in a manner satisfactory to Operator, their proportionate share of such estimate.

Should any Non-Operator fail and neglect to pay or secure the payment of its proportionate part of such estimate, the same shall bear interest at the rate of six per cent per annum until paid. Adjustments between estimates and actual costs shall be made by Operator at the close of each calendar month and the accounts of the parties adjusted accordingly.

XVIII.

SURPLUS MATERIAL AND EQUIPMENT

Surplus material and equipment from the Contract Area, when in the judgment of Operator is not necessary for the development and operation of the leased premises, may be divided in kind or, by mutual consent of the parties, be sold to one of the parties hereto or to others for the benefit of the joint account. Proper charges and credits shall be made by Operator as provided in the Accounting Procedure attached hereto as Exhibit "A".

XIX.

DISPOSITION OF PRODUCTION

At all times during the term hereof, each of the parties hereto, his or its heirs, successors or assigns, shall separately own and have the right of receiving in kind and disposing of his or its proportionate share of the oil, gas and other minerals produced and saved from the premises covered by this agreement. While a party hereto may constitute another party hereto, or one not a party hereto, his

or its agent or representative to sell or dispose of his or its proportionate share of the production, any such agency or representative capacity so created shall be revocable and cancellable at will by either of the parties thereto, his or its heirs, successors or assigns. Likewise, any contract of sale or disposition made by any such party or person acting as agent or representative of a party hereto shall be revocable and cancellable at the will of such party principal, his or its heirs, successors or assigns. If, by reason of any party hereto taking in kind his or its proportionate share of the oil, gas and other minerals produced and saved from the premises covered hereby, any additional operating or other expense is incurred for material, equipment or otherwise, such additional expense shall be borne in its entirety by the party or parties whose actions occasion such expense. Operator shall have the right, without charge, to use whatever oil or gas may in its judgment be necessary for developing or operating the joint property.

XX.

LIABILITY

The liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for its obligations as herein set out, and shall be liable for its proportionate share of the cost of developing and operating the premises subjected hereto. It is expressly agreed that it is not the purpose or intention of this agreement to create, nor shall the operations of the parties hereunder be construed or considered as a joint venture, or as any kind of a partnership.

XXI.

ADDITIONAL DRILLING

In the event any party desires to drill any additional well or deepen or plug back a dry hole or non-commercial well drilled at the joint expense of the parties, it shall notify in writing the other party or parties hereto thereof, and such party or parties shall have ten (10) days after

the receipt of such notice in which to determine and notify the party giving such notice whether it or they will join in such operations. If the party or parties receiving such notice elect (s) to participate in same, it or they shall in said time notify the party giving such notice of such election and if all the parties hereto elect to join therein, the Operator shall, within thirty (30) days after the elapse of said ten-day (10) period, commence at the joint expense of the parties hereto operations on such well under the other sections of this contract and shall prosecute the same with diligence in a workmanlike manner until said well is completed. If the party or parties receiving such notice notify (ies) in said time the party giving notice of its or their election not to participate in such operations, and failure to notify the party giving such notice by telegram or through the mails of its or their election to join or not to join in same shall be deemed for the purpose hereof to be an election not to join in the drilling or deepening or plugging back of such well, the party giving such notice shall have the right to drill or deepen or plug back such well at its cost and expense except as herein specified; provided that operations on said well are commenced within thirty (30) days after the elapse of said ten-day (10) period. The failure to commence such operations within such thirty-day (30) period terminates the right of the party giving such notice to commence such operations; however, a second notice may be given, in which event, the rights and duties of the parties will be governed by the provisions hereof with respect to such first notice. Any well drilled under this Section shall conform to the then existing well spacing program. The party or parties drilling or deepening or plugging back any well under this Section shall, within sixty days from the date of the completion thereof, furnish the other party or parties with an inventory of the equipment in and on said well and with an itemized statement of the cost of drilling, deepening, plugging back, equipping, testing, and completing said well for production and

each month thereafter during the time the participating party or parties is or are being reimbursed, as hereinafter provided, with an itemized statement of the cost of the operation of said well and the quantity of minerals produced therefrom and the amount of the proceeds from the sale of the working interest production in the preceding month.

If such well when completed should be a commercial producer, the participating party or parties shall be entitled to receive all the proceeds from the sale of non-participating party's or parties' share of the working interest production from such well until said party or parties drilling, deepening or plugging back any such well shall have received from the proceeds of the sale of non-participating party's or parties' share of the production an amount equal to two times what non-participating party's or parties' share of the cost of the drilling, deepening, plugging back, equipping, testing, and completing said well would have been had such party or parties participated, and one hundred per cent of the non-participating party's or parties' share of the cost of the operation of said well during the time such reimbursement is being made. Upon such reimbursement of drilling party, said well shall be owned and operated as are other wells under this agreement. If such well when completed should be a dry hole or as a producer not in commercial quantities, the participating party or parties shall plug and abandon the same at its or their cost. Participating party or parties under this paragraph shall hold non-participating party or parties free and clear of all costs, expense and liability in connection with the drilling, deepening or plugging back of such well. In the event such participating party or parties is or are unable to obtain from the non-participating party's or parties' share of such production a sufficient amount to repay such share of the cost of such drilling or deepening or plugging back plus such share of the cost of operating any such well as set forth above, such party or parties shall be entitled to and shall own all such material, equipment and

supplies placed or installed by it or them in or on the Contract Area or any well in connection with such drilling, deepening or plugging back; provided that if such materials, equipment and supplies have a salvage value in excess of such reimbursement figure hereinabove provided, such excess shall be owned by the parties hereto in proportion to their interests in the Joint Property. All other material, equipment and supplies, including (but not by way of limitation) such as has been installed or used in connection with the drilling of any well prior to such additional drilling or deepening or plugging back in accordance with the provisions of this clause, shall be owned in accordance with the other provisions of this agreement.

All sections of this contract that are applicable to Operator hereunder in conducting the development and operations of the Contract Area shall be applicable to whichever party becomes the Operator under this section.

XXII.

TRANSFERS OF INTEREST

No assignment, mortgage or other transfer affecting the interest covered hereby, the production therefrom, or equipment thereon, shall be made unless the same shall cover the entire undivided interest of assignor, mortgagor or seller in the Contract Area; it being the intent of this provision to maintain the joint development and operation of the Contract Area, provided that the sale of a lesser interest than the seller's entire undivided interest may be made upon the securing of the unanimous approval of the other party or parties in writing.

In the event any party desires to sell all or any part of its interest in the Contract Area, the other party or parties hereto shall have a preferential right to purchase same. In such event, the selling party shall promptly communicate to the other party or parties hereto the offer received by them or it from a prospective purchaser ready, willing and able to purchase the same, together with the name and address

of such prospective purchaser, and said party or parties shall thereupon have an option for a period of ten (10) days after the receipt of said notice to purchase such undivided interest for its or their own benefit on the terms and conditions of such offer; provided that any interest so acquired by more than one party hereto shall be shared by the parties purchasing the same upon the basis of their then existing interest in the premises. In the event of a sale by Operator of the interest owned by it which is subject hereto, the holders of a majority interest in the premises subject hereto shall be entitled to select a new Operator, but unless such selection is made, the transferee of the present Operator shall act as Operator hereunder. The limitations of this paragraph shall not apply where any party hereto desires to dispose of its interest by merger, reorganization, consolidation or sale of all its assets, or a sale of its interest to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which such party hereto owns a majority of the stock.

XXIII.

RIGHTS OF THE PARTIES TO INSPECT PROPERTY AND RECORDS

The following specific rights, privileges and obligations of the parties hereto are hereby expressly provided, but not by way of limitation or exclusion of any other right, privilege and obligation of the respective parties:

(a) Non-Operators shall have access to the entire Contract Area at all reasonable times to inspect and observe operations of every kind and character upon the property.

(b) Non-Operators shall have access at all reasonable times to any and all information pertaining to the wells drilled, production secured, oil and gas marketed, and to the books, records and vouchers relating to the operation of the Contract Area.

(c) Operator shall, upon request, furnish Non-Operators with daily drilling reports, true and complete copies of well logs, tests and charts, tank tables, daily gauge and run tickets, reports of stock on hand at the first of the month, and shall also, upon request, make available samples and cuttings from any and all wells drilled on the Contract Area.

(d) In addition to the above enumerated items, Operator agrees to furnish any Non-Operator, upon the latter's request, all information about the joint operations which is available to Operator and is necessary for intelligent handling of the joint operations.

XXIV.

ABANDONMENT OF WELL

In case the initial well or any additional jointly owned well or wells drilled hereunder shall prove to be a dry hole, then the Operator shall plug and abandon such well or wells and salvage all material and equipment therefrom for the benefit of the parties hereto in accordance with the provisions of said Exhibit "A". No producing well nor one that has ceased to produce shall be plugged and abandoned without the consent of the parties hereto and if the parties are unable to agree upon the abandonment of any well or wells then the party or parties not desiring to abandon such well or wells shall tender to the party or parties desiring to abandon same a sum equal to its or their proportionate share in the reasonable salvage value on top of the ground at the well of the material and equipment in and on said well. Upon receipt of such sum the party or parties desiring to abandon such well shall transfer without warranty of title to the party or parties desiring to retain the same, its or their interests in the zone or formation from which said well is then producing in and to the land attributed to said well by the well pattern on which said well was drilled, except that said assignment shall not include acreage upon which another producing well is located. Any such assignment shall vest the interest so assigned in the party or parties electing not to abandon any such well. If there is more than one non-abandoning party, such assignment shall run in favor of the non-abandoning parties in proportion to their then respective interests. The party or parties so assigning under this provision shall not be liable after delivery of such assignment for any cost or expense incurred after the delivery of said

assignment in connection with such well, but it or they shall be liable for its or their proportionate part of the cost and expense incurred before the delivery of said assignment.

XXV.

SURRENDER OF LEASES

No lease embraced within the Contract Area shall be surrendered unless the parties mutually agree thereon. If one or more of the parties should desire to surrender any lease or leases and any other or others not, the party or parties desiring to surrender shall assign to the party or parties not desiring to surrender its or their interest in such lease or leases and assigning party's interest shall be reduced proportionately. The party or parties receiving any such assignment shall pay the assigning party or parties the reasonable salvage value on top of the ground at the well of the assigning party's or parties' proportionate part of the equipment in and on any well or wells on such lease or leases on the date of any such assignment. If there be more than one assignee such assigned interest shall be held by the assignees in proportion to their then respective interests in the Contract Area.

XXVI.

EFFECTIVE PERIOD

This agreement shall become effective as hereinbefore provided and shall remain in force for the full term of the Unit Agreement, and may be terminated as a whole or in part only by mutual consent of the parties; provided, however, either party may be relieved from its obligations and liabilities hereunder not previously incurred by assigning and transferring to the other party or parties all of its right, title and interest in and to the oil and gas rights under the lease or leases committed hereto. The party receiving any such assignment or assignments shall pay the assigning party or parties the reasonable salvage value of its or their proportionate part on top of the ground at the well of the equipment in and on any well

or wells on the Contract Area on the date of any such assignment or assignments. If there be more than one assignee, said assigned interest shall be held by the assignees in proportion to their respective interests in the Contract Area.

XXVII.

REGULATIONS

This agreement and the respective rights and obligations of the parties hereunder shall be subject to all valid and applicable State and Federal laws, rules, regulations and orders and in the event this agreement or any provision hereof is, or the operations contemplated hereby, are found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control, and this agreement shall be regarded as modified accordingly, and as so modified, to continue in full force and effect.

XXVIII.

NOTICES

All notices that are required or authorized to be given hereunder except as otherwise specifically provided for herein, shall be given in writing by United States registered mail or Western Union telegram, postage or charges prepaid, and addressed to the party to whom such notice is given at the appropriate address given at the head of this contract. The originating notice to be given under any provision hereof shall be deemed given when received by the party to whom such notice is directed and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent notice shall be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, with postage or charges prepaid.

XXIX.

TAXES

Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this

contract and all physical property located on the unit or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws, or which may be made subject to taxation under future laws, and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill Non-Operators for their proportionate share of such tax payments as provided by the Accounting procedure hereto attached.

XXX.

TUBULAR GOODS

At such times as tubular goods and other equipment can be purchased only at prices in excess of the limitations imposed by the Accounting Procedure, Exhibit "A", or such tubular goods and other equipment are not available at the nearest customary supply point, Operator, notwithstanding such limitations, shall be permitted to charge the joint account with such costs and expenses as may be reasonably incurred in purchasing, shopping, and moving the required tubular goods and other equipment to the premises covered by this agreement; provided that each Non-Operator shall be first given the opportunity of furnishing in kind or in tonnage, as the parties may agree, his or its share of such tubular goods and other equipment required. This exception to said limitations shall be effective and shall apply only during such periods as the prices for tubular goods and other equipment are in excess of said limitations.

XXXI.

MISCELLANEOUS PROVISIONS

The term "oil and gas" as used herein shall include casinghead gas and any other mineral covered by any oil and gas lease subjected hereto.

Operator shall not be liable for any loss of property or of time caused by war, strikes, riots, fires, tornadoes,

floods, governmental priorities on materials, or other governmental restrictions, or resulting from any other cause beyond its control through the exercise of reasonable diligence.

This agreement and Exhibit "A" attached hereto contain all of the terms as agreed upon by the parties hereto.

This agreement shall extend to and bind the parties hereto and their respective successors and assigns. It is agreed that the terms, conditions and provisions hereof shall constitute a covenant running with the lands and leasehold estates covered hereby.

* * * * * * *

IN WITNESS WHEREOF, the parties hereto have signed this agreement as of the day and year first hereinabove written.

TEXAS PACIFIC COAL AND OIL COMPANY

By_____
President

ATTEST:

_____
Secretary

UNION OIL COMPANY OF CALIFORNIA

By_____
President

ATTEST:

_____
Secretary

THE STATE OF TEXAS, }
County of Tarrant. }

On this _____ day of _____, 1954, before me personally appeared C. E. Yager, to me personally known, who being by me duly sworn did say that he is the President of Texas Pacific Coal and Oil Company, and that the seal affixed to the foregoing 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 C. E. Yager 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 first above written.

_____
Notary Public

My commission expires
June 1, 1955.

THE STATE OF CALIFORNIA, }
County of _____ }

On this _____ day of _____, 1954, before me personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of Union Oil Company of California, and that the seal affixed to the foregoing 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 first above written.

My commission expires: _____

_____

F. 1383
STAFFORD-LOWDON CO.
FORT WORTH, TEXAS

EXHIBIT "A"

Attached to and made a part of Operating Agreement covering The South Crossroads Area, Lea County, New Mexico, Texas Pacific Coal and Oil Company, Operator; Union Oil Company of California, Non-Operator

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. **Definitions**

The term "joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account.

The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. **Statements and Billings**

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Sub-Paragraph A below:

A. Statement in detail of all charges and credits to the joint account.
B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
C. Statements, as follows:
   (1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;
   (2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
   (3) Statement of any other receipts and credits.

3. **Payments by Non-Operator**

Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. **Audits**

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months' period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. **Rentals and Royalties**

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid direct to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. **Labor, Transportation, and Services**

Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under Part (B) of this paragraph shall not exceed Ten and one-half per cent (10½%) of the total of such labor charged to the joint account.

3. **Material**

Material, equipment, and supplies purchased or furnished by Operator, for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as required for immediate use, and the accumulation of surplus stocks shall be avoided.

4. **Moving Material to Joint Property**

Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other properties of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

5. **Moving Surplus Material from Joint Property**

Moving surplus material from the joint property to outside vendees, if sold f.o.b. destination, or minor returns to Operator's warehouse or other storage point. No charge shall be made to the joint account for moving major surplus material to Operator's warehouse or other storage point for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator; and no charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. **Use of Operator's Equipment and Facilities**

Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 4, of Section III, "Basis of Charges to Joint Account."

7. **Damages and Losses**

Damages or losses incurred by fire, flood, storm, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damage or losses incurred by fire, storm, flood, or other natural or accidental causes as soon as practicable after report of the same has been received by Operator.

8. **Litigation, Judgments, and Claims**

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the joint account or the subject matter of this agreement; actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto, and a charge commensurate with the services rendered may be made against the joint account, but no such charge shall be made until approved by the legal department of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. **Taxes**

All taxes of every kind and nature assessed upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. **Insurance**

A. Premiums paid for insurance carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. *If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement* of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. **District, Field and Camp Expense**

A proportionate share of the salaries and expenses of Operator's District and Field Superintendent(s), Foreman and other general district and field operating and clerical employees (exclusive of Geologists, Landmen, Scouts, Attorneys, and similar employees) engaged in drilling and production activities whose time is not allocated direct to the Joint Property, and a proportionate share of expense of maintaining and operating district and field offices, cottages, camps and housing facilities for employees and other facilities necessary for conducting the operations on the Joint Property and other leases owned and operated by the Operator in the same locality. The expense of, less any revenue from, such facilities shall include depreciation, or a fair monthly rental in lieu of depreciation, on the investment. Such charges shall be apportioned on one of the bases set forth below. The basis of apportionment agreed upon for this operation is that described in Sub-Paragraph "D" below:

A. Flat rates per well per month as provided below:
   (1) $..... per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
   (2) $..... per well per month for each producing well.

B. In the ratio of drilling and producing wells on the Joint Property to the total drilling and producing wells on all properties supervised or served by the respective District, Field or Camp. Each drilling well shall be considered equivalent to.....producing wells.

C. On other equitable basis as may be agreed upon as described below:

D. To be included in and made a part of Paragraph No. "12" below;

(For instructions, etc., applicable to the computation of well-basis charges, see Item 12-X.)

12. **Overhead**

Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of Operator, including the Division Superintendent, the entire staff and expenses of the division office, and any portion of the office expense of the principal business office, but which are not in lieu of district or field office expenses incurred in operating any such properties, ~~or any other expenses of Operator incurred in the development and operation of said properties~~ and Operator shall have the right to assess against the joint property covered hereby the following overhead charges:

A. $ 200.00 per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. $ 150.00 per well per month for the first five (5) producing wells.

C. $ 75.00 per well per month for ~~all producing wells~~ over 5.

(For instructions, etc., applicable to the computation of well-basis charges, see Item 12-X.)

12-X. **Instructions, Etc., Applicable to Computation of Well-Basis Charges**

A. In connection with the overhead charges and allocation of district, field and camp expense, the status of wells shall be as follows:
   (1) In-put or key wells and water flood supply wells shall be treated the same as producing oil wells.
   (2) Producing gas wells shall be treated the same as producing oil wells.
   (3) Previously producing wells permanently shut down, but on which plugging operations are deferred, shall be dropped at the time the shutdown is affected. When such wells are being plugged, the producing well rate shall apply during the time required for plugging operation.
   (4) Wells being plugged back, worked over, redrilled or drilled deeper, requiring the use of a drilling outfit, shall be treated the same as drilling wells.

(5) Various wells may be shut down temporarily and later replaced on production. If and when a well is shut down (other than for proration) and not produced or worked upon for a period of a full calender month, it shall be dropped at the time shut down is affected, until such time it is placed back on production; provided that a well completed productive and shut in during the period required to install equipment necessary to produce it shall be treated the same as a producing well.

(6) Salt water disposal wells shall be treated the same as producing oil wells.

B. The above schedules on producing wells shall be applied to individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project in the interest of economic development, the schedules shall be applied to the total number of wells, irrespective of individual leases.

C. The above specific rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

D. In addition to the other charges to be made under the provisions of Paragraphs 11 and 12, there shall be charged to the joint account, for each drilling well, the salaries and expenses of Operator's geologists and engineers for that portion of their time applicable to such well.

13. Warehouse Handling Charges

None.

14. Other Expenditures

Any other expenditure incurred by Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator, after deduction of all trade discounts actually allowed or received.

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New material (Condition "A")

(1) New material transferred from Operator's warehouse or other properties shall be priced f. o. b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, rigs, pumps, sucker rods, boilers, and engines. Tubular goods (2" and over), shall be priced on carload basis effective at date of transfer and f. o. b. railway receiving point nearest the joint account operation, regardless of quantity transferred.

(2) Other material shall be priced on basis of a reputable supply company's Preferential Price List effective at date of transfer and f. o. b. the store or railway receiving point nearest the joint account operation where such material is available.

(3) Cash discount shall not be allowed.

B. Used material (Condition "B" and "C")

(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at 75% of new price.

(2) Material which cannot be classified as Condition "B" but which,

(a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classed as Condition "C" and priced at 50% of new price. Casing and tubing not suitable for its original use but good enough to be used as secondhand line pipe shall be priced as secondhand line pipe according to the provisions of this contract.

(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

(4) Tanks, derricks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and, in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

4. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

A. Water service, fuel gas, power, and compressor service: At rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

B. Automotive equipment: Rates commensurate with cost of ownership and operation. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck, tractor, and pulling unit rates shall include wages and expenses of driver.

C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located.

D. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.

E. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. Derricks, tanks, buildings, and other major items shall not be removed by Operator from the joint property without the approval of Non-Operator. Operator shall not sell major items of material to an outside party without giving Non-Operator an opportunity either to purchase same at the price offered or to take Non-Operator's share in kind.

1. **Material Purchased by Operator**
   Material purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the material is removed from the joint property.
2. **Material Purchased by Non-Operator**
   Material purchased by Non-Operator shall be invoiced by Operator and paid for by Non-Operator to Operator immediately following receipt of invoice. The Operator shall pass credit to the joint account and include the same in the monthly statement of operations.
3. **Division in Kind**
   Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party and corresponding credits will be made by the Operator to the joint account, and such credits shall appear in the monthly statement of operations.
4. **Sales to Outsiders**
   Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from Vendee. Any claims by Vendee for defective material or otherwise shall be charged back to the joint account, if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. **New Price Defined**
   New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."
2. **New Material**
   New material (Condition "A"), being new material procured for the joint account but never used thereon, at 100% of current new price.
3. **Good Used Material**
   Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning,
   A. At 75% of current new price if material was charged to joint account as new, or
   B. At 75% of current new price less depreciation consistent with their usage on and service to the joint property, if material was originally charged to the joint property as secondhand at 75% of new price.
4. **Other Used Material**
   Used material (Condition "C"), being used material which,
   A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
   B. Is serviceable for original function but substantially not suitable for reconditioning, at 50% of current new price. Casing and tubing not suitable for its original use but good enough to be used as secondhand line pipe shall be priced as secondhand line pipe according to the provisions of this contract.
5. **Bad-Order Material**
   Used material (Condition "D"), being material which cannot be classified as Condition "B" or Condition "C", shall be priced at a value commensurate with its use.
6. **Junk**
   Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.
7. **Temporarily Used Material**
   When the use of material is of a temporary nature and its service to the joint account does not justify the reduction in price as provided in Paragraph 3B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. **Periodic Inventories**
   Periodic inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.
2. **Notice**
   Notice of intention to take inventory shall be given by Operator at least ten days before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.
3. **Failure to be Represented**
   Failure of Non-Operator to be represented at the physical inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.
4. **Reconciliation of Inventory**
   Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.
5. **Adjustment of Inventory**
   Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall only be held accountable to Non-Operator for shortages due to lack of reasonable diligence.
6. **Special Inventories**
   Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property, and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

EXHIBIT "B"

SCHEDULE SHOWING
DESCRIPTION OF ACREAGE AND OWNERSHIP OF LEASES ON ALL LANDS
INCLUDED IN THE SOUTH CROSSROADS UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	LEASE NO. AND EXPIRATION DATE OF LEASE	LAND OWNER	RECORD OWNER OF LEASE
1	SE4 & ~~NE4~~ NW4 & W2/NE4 of Sec. 10, T-10-S, R-36-E	480	E-7067 4-10-58	State of New Mexico	Texas Pacific Coal and Oil Company
2	E2/NE4 of Sec. 10, T-10-S, R-36-E	80	E-7103 5-11-58	State of New Mexico	Texas Pacific Coal and Oil Company
3	SW4 of Sec. 10, T-10-S, R-36-E	160	E-6554 10-10-57	State of New Mexico	Union Oil Company of California

EXHIBIT "B"

SCHEDULE SHOWING
DESCRIPTION OF ACREAGE AND OWNERSHIP OF LEASES ON ALL LANDS
INCLUDED IN THE SOUTH CROSSROADS UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	LEASE NO. AND EXPIRATION DATE OF LEASE	LAND OWNER	RECORD OWNER OF LEASE
1	SE4 & ~~NE4~~ NW4 & W2/NE4 of Sec. 10, T-10-S, R-36-E	480	E-7067 4-10-58	State of New Mexico	Texas Pacific Coal and Oil Company
2	E2/NE4 of Sec. 10, T-10-S, R-36-E	80	E-7103 5-11-58	State of New Mexico	Texas Pacific Coal and Oil Company
3	SW4 of Sec. 10, T-10-S, R-36-E	160	E-6554 10-10-57	State of New Mexico	Union Oil Company of California

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 690
ORDER NO. R-480

THE APPLICATION OF TEXAS PACIFIC
COAL AND OIL COMPANY FOR AN ORDER
APPROVING A PROPOSED UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SOUTH CROSSROADS UNIT AREA CONSISTING OF
640 ACRES SITUATED IN TOWNSHIP 10 SOUTH,
RANGE 36 EAST, NMPM, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on May 19, 1954, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 27th day of May, 1954, the Commission, 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 of the time and place of hearing and the purpose thereof having been given as required by law, the Commission has jurisdiction of this case and the subject matter thereof.

(2) That applicant's 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 SOUTH CROSSROADS UNIT AGREEMENT ORDER

SECTION 1: (a) That the project herein shall be known as the South Crossroads 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 South Crossroads Unit Area referred to in the Petitioner's petition and filed with said petition, and such plan shall be known as the South Crossroads Unit Agreement Plan.

SECTION 2: That the South Crossroads Unit Agreement 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 South Crossroads 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

Township 10 South, Range 36 East
All of Section 10

containing 640 acres, more or less, all of which are state lands.

(b) The Unit Area may be expanded 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 South Crossroads 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 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 upon approval of the Commissioner of Public Lands of the State of New Mexico and shall terminate ipso facto on termination of said Unit Agreement. The last Unit Operator shall immediately notify the Commission, and the Commissioner of Public Lands, 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

Case 690

JACK M. CAMPBELL
ATTORNEY AT LAW
224 J. P. WHITE BUILDING
ROSWELL, NEW MEXICO

MAIN OFFICE OCC
1954 MAR 29 AM 8:58
PHONE 4975

March 25, 1954

Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Attn: Nancy Royal

Gentlemen:

I am enclosing herewith two copies of a proposed Unit Agreement and a proposed Operating Agreement which should be attached as Exhibits A and B respectively to the application I filed on behalf of Texas Pacific Coal and Oil Company last week, for the approval of the South Crossroads Unit Agreement. I assume that this application is being processed for hearing at the regular April meeting of the Commission.

Thanking you for your assistance, I am

Very truly yours,

Jack M. Campbell

JMC:le
Enc.

cc: Mr. Eugene T. Adair, Vice President
and General Counsel
Texas Pacific Coal and Oil Co.

Case 690

OPERATING AGREEMENT

THIS AGREEMENT made and entered into as of the first day of March, 1954, by and between Texas Pacific Coal and Oil Company, a corporation (whose address is Box 2110, Fort Worth, Texas), hereinafter sometimes referred to as "Operator", and Union Oil Company of California, a corporation (whose address is 200 Wilkinson-Foster Building, Midland, Texas), hereinafter sometimes referred to as "Non-Operator";

W I T N E S S E T H:

WHEREAS, the parties hereto have executed that certain "Unit Agreement for the Development and Operation of the South Crossroads Area, Lea County, New Mexico", (hereinafter sometimes referred to simply as the "Unit Agreement"), pertaining to the following described lands, hereinafter sometimes referred to as the "Unit Area":

> All of Section Ten (10), Township Ten (10) South, Range thirty-six (36) East, in Lea County, New Mexico, containing 640 acres of land, more or less;

and

WHEREAS, the parties hereto are the owners of oil and gas leases covering lands located within the above described Unit Area; and

WHEREAS, with a view of preventing waste and of more economically operating, for the production of oil and gas, the leases within such Unit Area which are owned by the parties hereto, such parties desire to develop and operate jointly said leases on the terms, covenants and conditions thereof and hereof;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the parties have entered into, and by these presents do enter into the following agreement:

I.

CONTRACT AREA

The leases owned by the parties hereto cover and apply to the following described lands, which shall constitute the "Contract Area":

> All of Section Ten (10), Township Ten (10) South, Range thirty-six (36) East, in Lea County, New Mexico, containing 640 acres of land, more or less;

and

This Contract Area shall be developed and operated for the production of oil and gas by Operator, subject to the terms and conditions of this Agreement, and the parties hereto hereby commit to this Agreement their leases in the lands comprising the Contract Area insofar as same cover and apply thereto. Except as provided in Paragraph III hereof, the Contract Area shall never be enlarged unless all parties hereto consent to such enlargement.

II.

INTEREST OF THE PARTIES

The interests of the parties in and to all the production from the Contract Area and in and to the materials and equipment to be installed therein and thereon shall be as follows:

Party	Undivided Interest
Texas Pacific Coal and Oil Company	75%
Union Oil Company of California	25%

and all costs, expenses and liabilities accruing or resulting from the development and the operation of the Contract Area pursuant to this Agreement shall be determined, shared and borne by the parties hereto in said proportions. Likewise, any contributions (acreage, money, dry-hole or otherwise) made to the operator, or any other party hereto, by reason of operations in the Contract Area, shall be shared by the parties hereto in the same proportions.

III.

SUBSEQUENT JOINDER

Except by mutual consent of all parties hereto, no owner of a working interest in any oil and gas lease covering lands outside the Contract Area shall ever be permitted, by reason of such ownership, to join in this agreement or to participate in the production from the Contract Area unless (1) the lease or interest therein which such owner desires to commit to this agreement shall have been proven by actual drilling to be productive of oil or gas in commercial quantities; and (2) such joinder is approved by parties hereto owning at least 90% of the interest set out in Paragraph II hereof. No such joinder shall become effective until the owner of such leasehold interest shall have; (1) executed the Unit Agreement; (2) executed a counterpart of this agreement and an appropriate instrument committing such owner's leasehold interest to this agreement; and (3) reimbursed each of the parties hereto, on a mutually agreeable basis, for such owner's proportionate share of all costs and expenses theretofore incurred in developing and operating the Contract Area. In the event of any such joinder, the Contract Area shall be enlarged to include the leasehold interest committed thereto by such owner, and the schedule of participation set forth in Paragraph II shall be revised to reflect such owner's interest in the Contract Area and the proportionately reduced interests of the other parties hereto.

IV.

AGREEMENT TO BECOME EFFECTIVE

Notwithstanding any other provisions of this agreement, this agreement shall not become effective, nor shall Operator incur any liability hereunder, unless on or before the well commencement date set forth in Paragraph VI below, (1) this agreement shall have been executed by all parties named as parties hereto, (2) all parties named as parties shall have executed the Unit Agreement, and (3) such Unit Agreement shall

have been approved by the Commissioner of Public Lands of the State of New Mexico and his Certificate of Approval has been executed and issued. Should this agreement become effective, it shall be effective as of the date hereof.

V.

TITLES

Any loss of title occurring under any lease contributed hereto shall be borne by the party who contributed such lease to this agreement, provided that there shall be no retroactive adjustment of cost and revenue made prior to final determination of such loss. Loss of title shall mean only the loss of a lease, or an interest therein, through a defect in title. Loss of a lease through failure to obtain production shall be borne by all parties in proportion to their interest in the Contract Area.

VI.

DESIGNATION OF OPERATOR AND TEST WELL

Texas Pacific Coal and Oil Company shall be the Operator hereunder and as such, shall, (subject to the provisions of Paragraph IV hereof) on or before sixty days from this date commence or cause to be commenced the actual drilling of a well for the discovery of oil and gas, at a mutually agreeable location some where upon the land comprising the Unit Area, and shall prosecute the drilling thereof with diligence to a depth of 13,000 feet or to a depth sufficient to test the Devonian formation expected to be encountered at about said depth, unless oil or gas in paying quantities is discovered at a lesser depth, or unless some formation or condition is encountered at a lesser depth which would, in the judgment of the parties hereto owning at least 75% of the interest in the Contract Area, make further drilling unwarranted or impracticable.

VII.

INSURANCE

Operator shall, at all times while operations are conducted on the premises subject hereto, carry insurance to indemnify, protect and save the parties hereto harmless, as follows:

a. Employers' Liability and Workmen's Compensation Insurance, in accordance with the laws of the State where operations are being conducted.

b. Public Liability Insurance with limits of not less than One Hundred Thousand Dollars ($100,000.00) as to any one person and Three Hundred Thousand Dollars ($300,000.00) as to any one accident.

c. Automobile Public Liability Insurance, with limits of not less than One Hundred Thousand Dollars ($100,000.00) as to any one person and Three Hundred Thousand Dollars ($300,000.00) as to any one accident, and Automobile Property Damage Insurance with a limit of not less than Fifty Thousand Dollars ($50,000.00).

d. If steam boilers are used in connection with the operations hereunder, the Operator shall procure and maintain steam boiler and machinery explosion insurance with limits of Fifty Thousand Dollars ($50,000.00) per accident and the premiums therefor shall be treated as a part of the actual cost of development and operations.

No other insurance is to be carried at joint expense and the parties hereto shall assume their own risk, covering their respective interests, on all other insurable risks.

VIII.

OVERRIDING ROYALTIES, OIL PAYMENTS, ETC.

If any oil and gas leases contributed to the Contract Area herein are burdened with any royalties, overriding royalties, payments out of production or any other charges in addition to the usual one-eighth (1/8) royalty, the party contributing any such lease shall bear and assume same out of the interest attributable to them or it hereunder.

IX.

LEASES

It is understood that each of the oil and gas leases contributed by the parties covering the Contract Area is a New Mexico State lease and each party hereto shall comply with all of the terms and provisions of the oil and gas lease contributed by it insofar as the same pertains to the Contract Area, subject, however, to the other terms and provisions of this agreement.

X.

RENTAL PAYMENTS

Each party holding an oil and gas lease subjected to this agreement shall, before the due date, pay all delay rentals which may become due under the lease or leases contributed by it. The burden of paying such rentals shall fall entirely upon the party required to make payment thereof hereunder. In event of failure to make proper payment of any delay rental through mistake, or oversight where such rental is required to continue the lease in force (it being understood that any such failure shall not be regarded as a title failure within the meaning of any other section of this agreement) there shall be no money liability on the part of the party failing to pay such rental, but such party shall make a bona fide effort to secure a new lease covering the same interest, and in event of failure to secure a new lease within a reasonable time, the interests of the parties hereto shall be revised so that the party failing to pay any such rental will not be credited with the ownership of any lease on which rental was required but was not paid. Each party contributing an oil and gas lease or leases to this agreement shall notify each of the other parties contributing oil and gas leases hereto, at least ten (10) days prior to the due date, that it has paid all delay rentals required to continue such leases in full force and effect and will furnish copies of the receipts evidencing such payments.

XI.

CONTROL AND COST OF OPERATION

Operator shall have full control of the premises subjected hereto and, subject to the provisions hereof, shall conduct and manage the development and operation of said premises for the production of oil and gas for the joint account of the parties hereto. Operator shall pay and discharge all costs and expenses incurred pursuant hereto, and shall charge each of the parties hereto with its respective proportionate share upon the cost and expense basis provided in

the Accounting Procedure attached hereto, marked Exhibit "A", and made a part hereof; provided, however, if any provision of said Exhibit "A" conflicts with any provision hereof, the latter shall be deemed to control. Each party hereto other than Operator will promptly pay Operator such costs as are hereunder chargeable to such party. Unless otherwise herein provided, all production of oil and gas from said land, subject to the payment of applicable royalties thereon, and all materials and equipment acquired pursuant hereto shall be owned by the parties hereto in the respective proportions as set out herein. Operator shall at all times keep the joint interest of the parties hereto in and to the leases and equipment thereon free and clear of all labor and mechanic's liens and encumbrances.

XII.

EMPLOYEES

The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees shall be determined by Operator. Such employees shall be employees of Operator.

XIII.

DRILLING OPERATIONS

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the field in which said leases are located. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but in such event the charge therefor shall not exceed the prevailing rate in the field; and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature. All drilling contracts shall contain appropriate provisions that any wells drilled on the Contract Area, when completed, shall not deviate in excess of five degrees from perpendicular.

XIV.

AUTHORITY FOR INCURRING OF EXPENDITURES

Operator, before incurring any items of expenditure in excess of Five Thousand ($5,000.) Dollars, except expenditures for the drilling and equipment of wells mutually agreed upon, shall secure the express consent and approval in writing of each Non-Operator. Operator shall, upon request, furnish each Non-Operator with a copy of Operator's Company authority for expenditures for any project costing in excess of One Thousand Dollars ($1,000.00).

XV.

Notwithstanding any other provisions in this agreement, it shall not be necessary for Operator to secure the consent of any other party hereunder to additional drilling for the joint account or to any expenditure over $5,000.00 for the joint account where, by reason of death, incapacity, disability, insolvency, bankruptcy, or other condition, similar or dissimilar, such other party is incapable of giving such consent. In any such event, the determination of any additional drilling and the extent thereof, and the determination of any expenditure made for the joint account amounting to more than $5,000.00, shall be in the sole judgment of Operator and the unaffected other parties, if any. Such judgment shall be exercised without liability and, unless fraudulently exercised, shall be conclusive.

XVI.

OPERATOR'S LIEN

Operator shall have a lien upon the interest of each Non-Operator which is subjected to this agreement, the oil and gas therefrom, the proceeds thereof and the materials and equipment thereon and therein to secure Operator in the payment of any sum due to Operator hereunder from any Non-Operator. The lien herein provided for shall not extend to any royalty rights attributable to any interests subjected hereto.

XVII.

ADVANCES

Operator, at its election, may require Non-Operators to furnish their proportion of the development and operating costs according to the following conditions:

On or before the first day of each calendar month, Operator shall submit an itemized estimate of such costs for the succeeding calendar month to Non-Operators. Within fifteen (15) days thereafter, Non-Operators shall pay, or secure the payment in a manner satisfactory to Operator, their proportionate share of such estimate.

Should any Non-Operator fail and neglect to pay or secure the payment of its proportionate part of such estimate, the same shall bear interest at the rate of six per cent per annum until paid. Adjustments between estimates and actual costs shall be made by Operator at the close of each calendar month and the accounts of the parties adjusted accordingly.

XVIII.

SURPLUS MATERIAL AND EQUIPMENT

Surplus material and equipment from the Contract Area, when in the judgment of Operator is not necessary for the development and operation of the leased premises, may be divided in kind or, by mutual consent of the parties, be sold to one of the parties hereto or to others for the benefit of the joint account. Proper charges and credits shall be made by Operator as provided in the Accounting Procedure attached hereto as Exhibit "A".

XIX.

DISPOSITION OF PRODUCTION

At all times during the term hereof, each of the parties hereto, his or its heirs, successors or assigns, shall separately own and have the right of receiving in kind and disposing of his or its proportionate share of the oil, gas and other minerals produced and saved from the premises covered by this agreement. While a party hereto may constitute another party hereto, or one not a party hereto, his

or its agent or representative to sell or dispose of his or its proportionate share of the production, any such agency or representative capacity so created shall be revocable and cancellable at will by either of the parties thereto, his or its heirs, successors or assigns. Likewise, any contract of sale or disposition made by any such party or person acting as agent or representative of a party hereto shall be revocable and cancellable at the will of such party principal, his or its heirs, successors or assigns. If, by reason of any party hereto taking in kind his or its proportionate share of the oil, gas and other minerals produced and saved from the premises covered hereby, any additional operating or other expense is incurred for material, equipment or otherwise, such additional expense shall be borne in its entirety by the party or parties whose actions occasion such expense. Operator shall have the right, without charge, to use whatever oil or gas may in its judgment be necessary for developing or operating the joint property.

XX.

LIABILITY

The liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for its obligations as herein set out, and shall be liable for its proportionate share of the cost of developing and operating the premises subjected hereto. It is expressly agreed that it is not the purpose or intention of this agreement to create, nor shall the operations of the parties hereunder be construed or considered as a joint venture, or as any kind of a partnership.

XXI.

ADDITIONAL DRILLING

In the event any party desires to drill any additional well or deepen or plug back a dry hole or non-commercial well drilled at the joint expense of the parties, it shall notify in writing the other party or parties hereto thereof, and such party or parties shall have ten (10) days after

the receipt of such notice in which to determine and notify the party giving such notice whether it or they will join in such operations. If the party or parties receiving such notice elect (s) to participate in same, it or they shall in said time notify the party giving such notice of such election and if all the parties hereto elect to join therein, the Operator shall, within thirty (30) days after the elapse of said ten-day (10) period, commence at the joint expense of the parties hereto operations on such well under the other sections of this contract and shall prosecute the same with diligence in a workmanlike manner until said well is completed. If the party or parties receiving such notice notify (ies) in said time the party giving notice of its or their election not to participate in such operations, and failure to notify the party giving such notice by telegram or through the mails of its or their election to join or not to join in same shall be deemed for the purpose hereof to be an election not to join in the drilling or deepening or plugging back of such well, the party giving such notice shall have the right to drill or deepen or plug back such well at its cost and expense except as herein specified; provided that operations on said well are commenced within thirty (30) days after the elapse of said ten-day (10) period. The failure to commence such operations within such thirty-day (30) period terminates the right of the party giving such notice to commence such operations; however, a second notice may be given, in which event, the rights and duties of the parties will be governed by the provisions hereof with respect to such first notice. Any well drilled under this Section shall conform to the then existing well spacing program. The party or parties drilling or deepening or plugging back any well under this Section shall, within sixty days from the date of the completion thereof, furnish the other party or parties with an inventory of the equipment in and on said well and with an itemized statement of the cost of drilling, deepening, plugging back, equipping, testing, and completing said well for production and

each month thereafter during the time the participating party or parties is or are being reimbursed, as hereinafter provided, with an itemized statement of the cost of the operation of said well and the quantity of minerals produced therefrom and the amount of the proceeds from the sale of the working interest production in the preceding month.

If such well when completed should be a commercial producer, the participating party or parties shall be entitled to receive all the proceeds from the sale of non-participating party's or parties' share of the working interest production from such well until said party or parties drilling, deepening or plugging back any such well shall have received from the proceeds of the sale of non-participating party's or parties' share of the production an amount equal to two times what non-participating party's or parties' share of the cost of the drilling, deepening, plugging back, equipping, testing, and completing said well would have been had such party or parties participated, and one hundred per cent of the non-participating party's or parties' share of the cost of the operation of said well during the time such reimbursement is being made. Upon such reimbursement of drilling party, said well shall be owned and operated as are other wells under this agreement. If such well when completed should be a dry hole or as a producer not in commercial quantities, the participating party or parties shall plug and abandon the same at its or their cost. Participating party or parties under this paragraph shall hold non-participating party or parties free and clear of all costs, expense and liability in connection with the drilling, deepening or plugging back of such well. In the event such participating party or parties is or are unable to obtain from the non-participating party's or parties' share of such production a sufficient amount to repay such share of the cost of such drilling or deepening or plugging back plus such share of the cost of operating any such well as set forth above, such party or parties shall be entitled to and shall own all such material, equipment and

supplies placed or installed by it or them in or on the Contract Area or any well in connection with such drilling, deepening or plugging back; provided that if such materials, equipment and supplies have a salvage value in excess of such reimbursement figure hereinabove provided, such excess shall be owned by the parties hereto in proportion to their interests in the Joint Property. All other material, equipment and supplies, including (but not by way of limitation) such as has been installed or used in connection with the drilling of any well prior to such additional drilling or deepening or plugging back in accordance with the provisions of this clause, shall be owned in accordance with the other provisions of this agreement.

All sections of this contract that are applicable to Operator hereunder in conducting the development and operations of the Contract Area shall be applicable to whichever party becomes the Operator under this section.

XXII.

TRANSFERS OF INTEREST

No assignment, mortgage or other transfer affecting the interest covered hereby, the production therefrom, or equipment thereon, shall be made unless the same shall cover the entire undivided interest of assignor, mortgagor or seller in the Contract Area; it being the intent of this provision to maintain the joint development and operation of the Contract Area, provided that the sale of a lesser interest than the seller's entire undivided interest may be made upon the securing of the unanimous approval of the other party or parties in writing.

In the event any party desires to sell all or any part of its interest in the Contract Area, the other party or parties hereto shall have a preferential right to purchase same. In such event, the selling party shall promptly communicate to the other party or parties hereto the offer received by them or it from a prospective purchaser ready, willing and able to purchase the same, together with the name and address

of such prospective purchaser, and said party or parties shall thereupon have an option for a period of ten (10) days after the receipt of said notice to purchase such undivided interest for its or their own benefit on the terms and conditions of such offer; provided that any interest so acquired by more than one party hereto shall be shared by the parties purchasing the same upon the basis of their then existing interest in the premises. In the event of a sale by Operator of the interest owned by it which is subject hereto, the holders of a majority interest in the premises subject hereto shall be entitled to select a new Operator, but unless such selection is made, the transferee of the present Operator shall act as Operator hereunder. The limitations of this paragraph shall not apply where any party hereto desires to dispose of its interest by merger, reorganization, consolidation or sale of all its assets, or a sale of its interest to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which such party hereto owns a majority of the stock.

XXIII.

RIGHTS OF THE PARTIES TO INSPECT PROPERTY AND RECORDS

The following specific rights, privileges and obligations of the parties hereto are hereby expressly provided, but not by way of limitation or exclusion of any other right, privilege and obligation of the respective parties:

(a) Non-Operators shall have access to the entire Contract Area at all reasonable times to inspect and observe operations of every kind and character upon the property.

(b) Non-Operators shall have access at all reasonable times to any and all information pertaining to the wells drilled, production secured, oil and gas marketed, and to the books, records and vouchers relating to the operation of the Contract Area.

(c) Operator shall, upon request, furnish Non-Operators with daily drilling reports, true and complete copies of well logs, tests and charts, tank tables, daily gauge and run tickets, reports of stock on hand at the first of the month, and shall also, upon request, make available samples and cuttings from any and all wells drilled on the Contract Area.

(d) In addition to the above enumerated items, Operator agrees to furnish any Non-Operator, upon the latter's request, all information about the joint operations which is available to Operator and is necessary for intelligent handling of the joint operations.

XXIV.

ABANDONMENT OF WELL

In case the initial well or any additional jointly owned well or wells drilled hereunder shall prove to be a dry hole, then the Operator shall plug and abandon such well or wells and salvage all material and equipment therefrom for the benefit of the parties hereto in accordance with the provisions of said Exhibit "A". No producing well nor one that has ceased to produce shall be plugged and abandoned without the consent of the parties hereto and if the parties are unable to agree upon the abandonment of any well or wells then the party or parties not desiring to abandon such well or wells shall tender to the party or parties desiring to abandon same a sum equal to its or their proportionate share in the reasonable salvage value on top of the ground at the well of the material and equipment in and on said well. Upon receipt of such sum the party or parties desiring to abandon such well shall transfer without warranty of title to the party or parties desiring to retain the same, its or their interests in the zone or formation from which said well is then producing in and to the land attributed to said well by the well pattern on which said well was drilled, except that said assignment shall not include acreage upon which another producing well is located. Any such assignment shall vest the interest so assigned in the party or parties electing not to abandon any such well. If there is more than one non-abandoning party, such assignment shall run in favor of the non-abandoning parties in proportion to their then respective interests. The party or parties so assigning under this provision shall not be liable after delivery of such assignment for any cost or expense incurred after the delivery of said

assignment in connection with such well, but it or they shall be liable for its or their proportionate part of the cost and expense incurred before the delivery of said assignment.

XXV.

SURRENDER OF LEASES

No lease embraced within the Contract Area shall be surrendered unless the parties mutually agree thereon. If one or more of the parties should desire to surrender any lease or leases and any other or others not, the party or parties desiring to surrender shall assign to the party or parties not desiring to surrender its or their interest in such lease or leases and assigning party's interest shall be reduced proportionately. The party or parties receiving any such assignment shall pay the assigning party or parties the reasonable salvage value on top of the ground at the well of the assigning party's or parties' proportionate part of the equipment in and on any well or wells on such lease or leases on the date of any such assignment. If there be more than one assignee such assigned interest shall be held by the assignees in proportion to their then respective interests in the Contract Area.

XXVI.

EFFECTIVE PERIOD

This agreement shall become effective as hereinbefore provided and shall remain in force for the full term of the Unit Agreement, and may be terminated as a whole or in part only by mutual consent of the parties; provided, however, either party may be relieved from its obligations and liabilities hereunder not previously incurred by assigning and transferring to the other party or parties all of its right, title and interest in and to the oil and gas rights under the lease or leases committed hereto. The party receiving any such assignment or assignments shall pay the assigning party or parties the reasonable salvage value of its or their proportionate part on top of the ground at the well of the equipment in and on any well

or wells on the Contract Area on the date of any such assignment or assignments. If there be more than one assignee, said assigned interest shall be held by the assignees in proportion to their respective interests in the Contract Area.

XXVII.

REGULATIONS

This agreement and the respective rights and obligations of the parties hereunder shall be subject to all valid and applicable State and Federal laws, rules, regulations and orders and in the event this agreement or any provision hereof is, or the operations contemplated hereby, are found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control, and this agreement shall be regarded as modified accordingly, and as so modified, to continue in full force and effect.

XXVIII.

NOTICES

All notices that are required or authorized to be given hereunder except as otherwise specifically provided for herein, shall be given in writing by United States registered mail or Western Union telegram, postage or charges prepaid, and addressed to the party to whom such notice is given at the appropriate address given at the head of this contract. The originating notice to be given under any provision hereof shall be deemed given when received by the party to whom such notice is directed and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent notice shall be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, with postage or charges prepaid.

XXIX.

TAXES

Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this

contract and all physical property located on the unit or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws, or which may be made subject to taxation under future laws, and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill Non-Operators for their proportionate share of such tax payments as provided by the Accounting procedure hereto attached.

XXX.

TUBULAR GOODS

At such times as tubular goods and other equipment can be purchased only at prices in excess of the limitations imposed by the Accounting Procedure, Exhibit "A", or such tubular goods and other equipment are not available at the nearest customary supply point, Operator, notwithstanding such limitations, shall be permitted to charge the joint account with such costs and expenses as may be reasonably incurred in purchasing, shopping, and moving the required tubular goods and other equipment to the premises covered by this agreement; provided that each Non-Operator shall be first given the opportunity of furnishing in kind or in tonnage, as the parties may agree, his or its share of such tubular goods and other equipment required. This exception to said limitations shall be effective and shall apply only during such periods as the prices for tubular goods and other equipment are in excess of said limitations.

XXXI.

MISCELLANEOUS PROVISIONS

The term "oil and gas" as used herein shall include casinghead gas and any other mineral covered by any oil and gas lease subjected hereto.

Operator shall not be liable for any loss of property or of time caused by war, strikes, riots, fires, tornadoes,

floods, governmental priorities on materials, or other governmental restrictions, or resulting from any other cause beyond its control through the exercise of reasonable diligence.

This agreement and Exhibit "A" attached hereto contain all of the terms as agreed upon by the parties hereto.

This agreement shall extend to and bind the parties hereto and their respective successors and assigns. It is agreed that the terms, conditions and provisions hereof shall constitute a covenant running with the lands and leasehold estates covered hereby.

* * * * * * *

IN WITNESS WHEREOF, the parties hereto have signed this agreement as of the day and year first hereinabove written.

TEXAS PACIFIC COAL AND OIL COMPANY

By_____
President

ATTEST:

_____
Secretary

UNION OIL COMPANY OF CALIFORNIA

By_____
President

ATTEST:

_____
Secretary

THE STATE OF TEXAS, }
County of Tarrant. }

On this _____ day of _____, 1954, before me personally appeared C. E. Yager, to me personally known, who being by me duly sworn did say that he is the President of Texas Pacific Coal and Oil Company, and that the seal affixed to the foregoing 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 C. E. Yager 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 first above written.

_____
Notary Public

My commission expires
June 1, 1955.

THE STATE OF CALIFORNIA, }
County of _____ }

On this _____ day of _____, 1954, before me personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of Union Oil Company of California, and that the seal affixed to the foregoing 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 first above written.

My commission expires: _____

_____

F. 1383
STAFFORD-LOWDON CO.
FORT WORTH, TEXAS

EXHIBIT "A"

Attached to and made a part of Operating Agreement covering The South Crossroads Area, Lea County, New Mexico, Texas Pacific Coal and Oil Company, Operator; Union Oil Company of California, Non-Operator

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. **Definitions**

The term "joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account.

The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. **Statements and Billings**

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Sub-Paragraph ***A*** below:

A. Statement in detail of all charges and credits to the joint account.
B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
C. Statements, as follows:
   (1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;
   (2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
   (3) Statement of any other receipts and credits.

3. **Payments by Non-Operator**

Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. **Audits**

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months' period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. **Rentals and Royalties**

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid direct to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. **Labor, Transportation, and Services**

Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under Part (B) of this paragraph shall not exceed Ten and one-half per cent (10½%) of the total of such labor charged to the joint account.

3. **Material**

Material, equipment, and supplies purchased or furnished by Operator, for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as required for immediate use, and the accumulation of surplus stocks shall be avoided.

4. **Moving Material to Joint Property**

Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other properties of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

5. **Moving Surplus Material from Joint Property**

Moving surplus material from the joint property to outside vendees, if sold f.o.b. destination, or minor returns to Operator's warehouse or other storage point. No charge shall be made to the joint account for moving major surplus material to Operator's warehouse or other storage point for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator; and no charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. **Use of Operator's Equipment and Facilities**

Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 4, of Section III, "Basis of Charges to Joint Account."

7. **Damages and Losses**

Damages or losses incurred by fire, flood, storm, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damage or losses incurred by fire, storm, flood, or other natural or accidental causes as soon as practicable after report of the same has been received by Operator.

8. **Litigation, Judgments, and Claims**

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the joint account or the subject matter of this agreement; actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto, and a charge commensurate with the services rendered may be made against the joint account, but no such charge shall be made until approved by the legal department of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. **Taxes**

All taxes of every kind and nature assessed upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. **Insurance**

A. Premiums paid for insurance carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. **District, Field and Camp Expense**

A proportionate share of the salaries and expenses of Operator's District and Field Superintendent(s), Foreman and other general district and field operating and clerical employees (exclusive of Geologists, Landmen, Scouts, Attorneys, and similar employees) engaged in drilling and production activities whose time is not allocated direct to the Joint Property, and a proportionate share of expense of maintaining and operating district and field offices, cottages, camps and housing facilities for employees and other facilities necessary for conducting the operations on the Joint Property and other leases owned and operated by the Operator in the same locality. The expense of, less any revenue from, such facilities shall include depreciation, or a fair monthly rental in lieu of depreciation, on the investment. Such charges shall be apportioned on one of the bases set forth below. The basis of apportionment agreed upon for this operation is that described in Sub-Paragraph ..."D"... below:

A. Flat rates per well per month as provided below:

(1) $..... per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

(2) $..... per well per month for each producing well.

B. In the ratio of drilling and producing wells on the Joint Property to the total drilling and producing wells on all properties supervised or served by the respective District, Field or Camp. Each drilling well shall be considered equivalent to.....producing wells.

C. On other equitable basis as may be agreed upon as described below:

D. To be included in and made a part of Paragraph No. "12" below;

(For instructions, etc., applicable to the computation of well-basis charges, see Item 12-X.)

12. **Overhead**

Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of Operator, including the Division Superintendent, the entire staff and expenses of the division office, and any portion of the office expense of the principal business office, but which are not in lieu of district or field office expenses incurred in operating any such properties, ~~or any other expenses of Operator incurred in the development and operation of said properties~~; and Operator shall have the right to assess against the joint property covered hereby the following overhead charges:

A. $...500.00..... per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. $...100.00..... per well per month for the first five (5) producing wells.

C. $.....75.00..... per well per month for ~~the second five (5) producing wells~~ all producing wells over 5.

D. $..... ~~per well per month for all producing wells over ten (10).~~

(For instructions, etc., applicable to the computation of well-basis charges, see Item 12-X.)

12-X. **Instructions, Etc., Applicable to Computation of Well-Basis Charges**

A. In connection with the overhead charges and allocation of district, field and camp expense, the status of wells shall be as follows:

(1) In-put or key wells and water flood supply wells shall be treated the same as producing oil wells.

(2) Producing gas wells shall be treated the same as producing oil wells.

(3) Previously producing wells permanently shut down, but on which plugging operations are deferred, shall be dropped at the time the shutdown is affected. When such wells are being plugged, the producing well rate shall apply during the time required for plugging operation.

(4) Wells being plugged back, worked over, redrilled or drilled deeper, requiring the use of a drilling outfit, shall be treated the same as drilling wells.

(5) Various wells may be shut down temporarily and later replaced on production. If and when a well is shut down (other than for proration) and not produced or worked upon for a period of a full calender month, it shall be dropped at the time shut down is affected, until such time it is placed back on production; provided that a well completed productive and shut in during the period required to install equipment necessary to produce it shall be treated the same as a producing well.

(6) Salt water disposal wells shall be treated the same as producing oil wells.

B. The above schedules on producing wells shall be applied to individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project in the interest of economic development, the schedules shall be applied to the total number of wells, irrespective of individual leases.

C. The above specific rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

D. In addition to the other charges to be made under the provisions of Paragraphs 11 and 12, there shall be charged to the joint account, for each drilling well, the salaries and expenses of Operator's geologists and engineers for that portion of their time applicable to such well.

13. Warehouse Handling Charges

None.

14. Other Expenditures

Any other expenditure incurred by Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator, after deduction of all trade discounts actually allowed or received.

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New material (Condition "A")

(1) New material transferred from Operator's warehouse or other properties shall be priced f. o. b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, rigs, pumps, sucker rods, boilers, and engines. Tubular goods (2" and over), shall be priced on carload basis effective at date of transfer and f. o. b. railway receiving point nearest the joint account operation, regardless of quantity transferred.

(2) Other material shall be priced on basis of a reputable supply company's Preferential Price List effective at date of transfer and f. o. b. the store or railway receiving point nearest the joint account operation where such material is available.

(3) Cash discount shall not be allowed.

B. Used material (Condition "B" and "C")

(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at 75% of new price.

(2) Material which cannot be classified as Condition "B" but which,

(a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classed as Condition "C" and priced at 50% of new price. Casing and tubing not suitable for its original use but good enough to be used as secondhand line pipe shall be priced as secondhand line pipe according to the provisions of this contract.

(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

(4) Tanks, derricks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and, in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

4. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

A. Water service, fuel gas, power, and compressor service: At rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

B. Automotive equipment: Rates commensurate with cost of ownership and operation. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck, tractor, and pulling unit rates shall include wages and expenses of driver.

C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located.

D. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.

E. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. Derricks, tanks, buildings, and other major items shall not be removed by Operator from the joint property without the approval of Non-Operator. Operator shall not sell major items of material to an outside party without giving Non-Operator an opportunity either to purchase same at the price offered or to take Non-Operator's share in kind.

1. **Material Purchased by Operator**
   Material purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the material is removed from the joint property.
2. **Material Purchased by Non-Operator**
   Material purchased by Non-Operator shall be invoiced by Operator and paid for by Non-Operator to Operator immediately following receipt of invoice. The Operator shall pass credit to the joint account and include the same in the monthly statement of operations.
3. **Division in Kind**
   Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party and corresponding credits will be made by the Operator to the joint account, and such credits shall appear in the monthly statement of operations.
4. **Sales to Outsiders**
   Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from Vendee. Any claims by Vendee for defective material or otherwise shall be charged back to the joint account, if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. **New Price Defined**
   New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."
2. **New Material**
   New material (Condition "A"), being new material procured for the joint account but never used thereon, at 100% of current new price.
3. **Good Used Material**
   Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning,
   A. At 75% of current new price if material was charged to joint account as new, or
   B. At 75% of current new price less depreciation consistent with their usage on and service to the joint property, if material was originally charged to the joint property as secondhand at 75% of new price.
4. **Other Used Material**
   Used material (Condition "C"), being used material which,
   A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
   B. Is serviceable for original function but substantially not suitable for reconditioning, at 50% of current new price. Casing and tubing not suitable for its original use but good enough to be used as secondhand line pipe shall be priced as secondhand line pipe according to the provisions of this contract.
5. **Bad-Order Material**
   Used material (Condition "D"), being material which cannot be classified as Condition "B" or Condition "C", shall be priced at a value commensurate with its use.
6. **Junk**
   Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.
7. **Temporarily Used Material**
   When the use of material is of a temporary nature and its service to the joint account does not justify the reduction in price as provided in Paragraph 3B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. **Periodic Inventories**
   Periodic inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.
2. **Notice**
   Notice of intention to take inventory shall be given by Operator at least ten days before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.
3. **Failure to be Represented**
   Failure of Non-Operator to be represented at the physical inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.
4. **Reconciliation of Inventory**
   Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.
5. **Adjustment of Inventory**
   Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall only be held accountable to Non-Operator for shortages due to lack of reasonable diligence.
6. **Special Inventories**
   Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property, and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

Case 690

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE SOUTH CROSSROADS UNIT AREA
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the first day of March, 1954, by and between Texas Pacific Coal and Oil Company and Union Oil Company of California, sometimes hereinafter 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 or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico (hereinafter referred to as the "Commissioner") is authorized by Acts of the Legislature (Chap. 88, Laws 1943, as amended by Chap. 162, Laws 1951) to consent to and approve the development or operation of State Lands under agreements made by lessees of State Lands jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by Act of the Legislature (Chap. 72, Laws 1935) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto own the entire working interest in the South Crossroads Unit Area covering the land hereinafter described, and therefore have 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 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. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

All of Section Ten (10), Township Ten (10) South, Range Thirty-six (36) East, in Lea County, New Mexico, containing 640 acres of land, 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. Exhibit "B" attached hereto is a schedule showing the acreage, percentage, and kind of ownership of the 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. If and whenever the unit area is expanded by the procedure hereinafter set out, Exhibits "A" and "B" shall be revised by the Unit Operator to conform with said expansion.

The above described unit area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Commissioner or of any of the parties hereto owning, in the aggregate, 50% of the oil and gas leasehold estate in and to the unit area, shall prepare a notice of proposed expansion 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 Commissioner and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor who have interests in the unit area, 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 Commissioner evidence of mailing of the notice of expansion 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 shall become effective as of the date prescribed in the notice thereof if and after (1) the same shall have been approved by the Commissioner and (2) the owner of each leasehold which has been added to the unit by reason of said expansion shall have executed the within and foregoing unit agreement and a counterpart of the operating agreement covering said unit area, and shall have reimbursed each of the parties hereto on a mutually agreeable basis, for such owner's proportionate share of all costs and expenses theretofore incurred in developing and operating the unit area; provided however, that, except by mutual consent of all parties hereto, no such expansion of the unit area shall be approved unless (1) each lease or interest therein which is proposed to be added to the unit area shall have been proved by actual drilling to be productive of oil or gas in commercial quantities; and (2) such expansion is approved by the owners of at least 90% of the oil and gas leasehold interest in and to the unit area on a surface acreage basis.

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

2. 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".

3. UNIT OPERATOR. Texas Pacific Coal and Oil Company, a corporation, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time provided

a successor Unit Operator has been selected and approved and has agreed to accept the duties and responsibilities of the Unit Operator effective upon the relinquishment of such duties and responsibilities by the retiring Unit Operator. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

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 Commissioner.

The resignation or removal of the Unit Operator under this agreement shall not terminate his 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.

5. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, 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 sufficient additional parties, so as to constitute in the aggregate not less than 75 per cent of the total working interest, 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 Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS. The Unit Operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses so paid by the Unit Operator shall be apportioned among and borne by the owners of working interests and the Unit Operator reimbursed in accordance with the operating agreement heretofore entered into by and between the Unit Operator and the owners of working interests.

7. 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 of 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.

8. DRILLING TO DISCOVERY. On or before May 1, 1954, the Unit Operator shall, unless it has already done so, commence operations upon a test well for oil and gas at a mutually agreeable location somewhere upon said Section 10, Township 10 South, Range 36 East, Lea County, New Mexico, and shall prosecute the drilling thereof with due diligence

to test the Devonian formation expected to be encountered at the approximate depth of 13,000 feet unless at a lesser depth unitized substances shall be discovered which can be produced in paying quantities or unless some formation or condition is encountered at a lesser depth which would, in the judgment of the parties hereto owning at least 75 per cent of the working interest in the unit area, make further drilling inadvisable or impracticable.

Any well commenced or completed prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of said test well shall be considered as complying with the drilling requirements hereof. Upon failure to comply with the drilling provisions of this section, the Commissioner may, after reasonable notice to the Unit Operator and each working interest owner at their last known addresses, declare this unit agreement terminated.

9. PARTICIPATION AND ALLOCATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests on an acreage basis within the unit area bear to the total number of acres committed to the unit agreement, and such unitized substances shall be deemed to have been produced from each of the oil and gas leases committed to this agreement; and for the purpose of determining any benefits accruing under this agreement and the distribution of the royalty payable to the State of New Mexico each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease included within the unit bears to the total number of acres committed hereto.

Notwithstanding any provision contained herein to the contrary, each working interest owner shall have the right and privilege, upon the payment or securing the payment of the royalty interest thereon, of receiving in kind or of separately disposing of its proportionate share of the gas and oil saved from the unit area; provided, however, that in the event of the failure or neglect of a non-operator to exercise the right and

privilege of receiving in kind or of separately disposing of its proportionate share of said production, Operator shall during such time as such party elects not to receive in kind or to sell and dispose of its proportionate share of production, have the right to purchase any such oil or gas for its own account at not less than the prevailing market price; or Operator may sell the same to others, in which event each of the parties hereto shall be entitled to receive payment direct for its share of the proceeds of all oil and gas so sold. In the event of such sale, each of the parties shall execute proper division orders or contracts of sale, and in such event as to any proposed contract of sale requiring delivery for a period in excess of that usually demanded by a purchaser of production of like grade and quantity in the area or in excess of one (1) year, the contract must be approved or accepted by the other party or parties. Any extra expenditure incurred by reason of the delivery of such proportionate part of the production to any party shall be borne by such party.

10. ROYALTY AND RENTAL PAYMENT. All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

If Unit Operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, 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 a plan of operations consented to by the Commissioner and approved by 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.

All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

11. 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 laws or regulations.

12. DRAINAGE. The Unit Operator shall take such appropriate and adequate measures consistent with those of a reasonably prudent operator to protect the unitized lands from drainage from wells on lands adjacent thereto.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED. Subject to the provisions of Section 13 (a) herein, the terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of the lands committed to this agreement shall, upon approval hereof by the Commissioner, be, and the same are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, and so that the length of the secondary term as to such lands will be extended, insofar as necessary, to coincide with the term of this agreement but otherwise to remain in full force and effect in accordance with the provisions thereof. Each lease committed to this agreement shall continue in force beyond the term provided therein so long as this agreement remains in effect, provided drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement

shall not affect a.y lease which pursuant to e terms thereof or any applicable law shall continue in full force and effect thereafter.

13. (a) 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.

14. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in 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, 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.

15. EFFECTIVE DATE AND TERM. This agreement shall become effective (1) upon execution of this agreement, prior to April 1, 1954, by working interest owners in the Unit Area owning 90% of the working interest therein on an acreage basis, and (2) upon approval by the Commissioner, and shall terminate in two years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) development operations are then being conducted on lands comprising the unit area, or (c) a discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities, 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. This agreement may be terminated at any time after the two year period or any extensions thereof, by not less than 75 per cent on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner; provided (1) production of unitized substances in commercial quantities has not been obtained from the unit area, or, having been obtained, has ceased; and (2) development operations are not then being conducted.

16. RATE OF PRODUCTION. All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

17. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation 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 party shall also have the right at his own expense to appear and to participate in any such proceeding.

18. NOTICES. All notices that are required or authorized to be given hereunder except as otherwise specifically provided for herein, shall be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

Texas Pacific Coal and Oil Company
P. O. Box 2110
Fort Worth, Texas

Union Oil Company of California
200 Wilkinson-Foster Building
Midland, Texas

The originating notice to be given under any provision hereof shall be deemed given when received by the party to whom such notice is directed, and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent notice shall

be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, with postage or charges prepaid.

19. 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, war, 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.

20. LOSS OF TITLE. In the event title to any tract or unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the Unit Operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

21. SUBSEQUENT JOINDER. Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to any operating agreement affecting the allocation of costs

of exploration, development and operation. After operations are commenced hereunder, the right of subsequent joinder by a working interest owner shall be subject to all of the requirements of any applicable operating agreement between the working interest owners relative to the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the filing with the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement.

22. EXISTING OPERATING AGREEMENT. In the event of any inconsistency or conflict between this unit agreement and the contemporaneous operating agreement entered into by and between the Unit Operator and the owners of working interests, this unit agreement, to that extent only, shall prevail.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the dates of their respective acknowledgments hereto.

SIGNATURES

DESCRIPTION OF INTERESTS COMMITTED TO SOUTH CROSSROADS UNIT AGREEMENT IN REFERENCE TO TRACT NUMBERS IN EXHIBIT "B" ATTACHED TO UNIT AGREEMENT

TEXAS PACIFIC COAL AND OIL COMPANY — Tracts No. 1 and No. 2

By _____
President

ATTEST:

_____
Secretary

UNIT OPERATOR

UNION OIL COMPANY OF CALIFORNIA — Tract No. 3

By _____
President

ATTEST:

_____
Secretary

NON-OPERATOR

THE STATE OF TEXAS, }
County of Tarrant. }

On this _____ day of _____, 1954, before me personally appeared C. E. Yager, to me personally known, who being by me duly sworn did say that he is the President of Texas Pacific Coal and Oil Company, and that the seal affixed to the foregoing 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 C. E. Yager 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 first above written.

_____
Notary Public

My commission expires
June 1, 1955.

THE STATE OF CALIFORNIA, }
County of _____ }

On this _____ day of _____, 1954, before me personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of Union Oil Company of California, and that the seal affixed to the foregoing 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 first above written.

My commission expires: _____

_____

CERTIFICATE OF APPROVAL
BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO,
OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION OF
SOUTH CROSSROADS UNIT AREA, LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached agreement for the development and operation of the South Crossroads Unit Area, Lea County, New Mexico, dated as of the first day of March, 1954, in which Texas Pacific Coal and Oil Company is designated as Unit Operator and which has been executed by parties owning and holding oil and gas leases embracing more than 90% of the lands within the unit area and upon examination of said Agreement the Commissioner finds:

(a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area;

(b) That under the operations proposed, the State will receive its fair share of the recoverable oil or gas in place under its land in the area affected;

(c) That the agreement is in other respects for the best interest of the State;

(d) That the agreement provides for the unit operation of the area, for the allocation of production, and the sharing of proceeds from a part of the area covered by the agreement on an acreage basis as specified in the agreement.

NOW, THEREFORE, by virtue of the authority conferred upon me by Chap. 88 of the Laws of the State of New Mexico, 1943, as amended by Chap. 162 of the laws of New Mexico, 1951, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said agreement, and all leases embracing lands in the State of New Mexico committed to said Unit Agreement shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said agreement. This approval is subject to all of the provisions of the aforesaid Chap. 88 of the Laws of the State of New Mexico, 1943, as amended by Chap. 162 of the Laws of the State of New Mexico, 1951.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this _____ day of _____, 1954.

_____
Commissioner of Public Lands
of the State of New Mexico