

MEMORANDUM

In reply refer to:  
Unit Division

DATE: 12-1-58

File  
794

December 1, 1958

C  
O  
P  
Y

Sunray Mid-Continent Oil Company  
P. O. Box 2039  
Tulsa 2, Oklahoma

Re: Termination Agreement-  
East Bagley Unit, all of  
Section 9, the East 1/2  
of Section 8 and the South  
1/2 of Section 4, Twp. 12S-  
Rge. 34E, Lea County, New Mexico

Gentlemen:

We are enclosing one approved copy of the Termination Agreement for the East Bagley Unit, which was approved by the Commissioner of Public Lands December 1, 1958.

This termination shall be effective as of November 21, 1958 as set forth in the Termination Agreement.

Very truly yours,  
MURRAY E. MORGAN,  
Commissioner of Public Lands

BY:  
Ted Bilberry, Supervisor  
Oil and Gas Division

MEM/MMR/m

cc: OCC-Santa Fe

April 7, 1955

Seaboard Oil Company  
408 White Building  
Roswell, New Mexico

Re: EAST BAGLEY UNIT AGREEMENT  
Lea County, New Mexico

Sec. 4, 8, 9, T-12-S. R-34-E.

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Gentlemen:

We acknowledge receipt of the above captioned Unit Agreement together with your remittance of \$15.00 to cover the filing fee.

Please be advised that we have approved this Unit Agreement and our official receipt No. 78835 for the filing fee was mailed to you the later part of November 1954.

Your approved copies of this Unit Agreement were properly executed by this Commission and given to Mr. Mason on April 5, 1955.

Very truly yours,

  
E. S. WALKER  
COMMISSIONER OF PUBLIC LANDS

cc Oil Conservation Commission ✓  
Santa Fe, New Mexico

United States Geological Survey  
Roswell, New Mexico

RTT/t

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

November 2, 1954

Mr. Clarence Hinkle  
Hervey, Low and Hinkle  
First National Bank Building  
ROSWELL N M

Dear Mr. Hinkle:

Through your application and letter received yesterday, the following cases have been added to the docket for the November 17 hearing, and advertisements have been issued for publication in the Santa Fe and Hobbs papers:

Case 794: Sunray Oil Corporation's East  
Bagley Unit Agreement

Case 795: Continental Oil Company's Williams  
Ranch Unit Agreement

A copy of the notice of publication is attached.

Very truly yours,

OIL CONSERVATION COMMISSION

NR

For W. B. Macey, Secretary-Director

WBM:nr

Case 794

LAW OFFICES

J. M. HERVEY 1874-1953

HIRAM M. DOW  
CLARENCE E. HINKLE  
W. E. BONDURANT, JR.  
GEORGE H. HUNKER, JR.  
WILLIAM C. SCHAUER  
HOWARD C. BRATTON  
S. B. CHRISTY IV

MAIN OFFICE

HERVEY, DOW & HINKLE

FIRST NATIONAL BANK BUILDING

ROSWELL, NEW MEXICO

October 29, 1954

1954 NOV 3 AM 8:45

TELEPHONE 2160  
L. D. 3

Mr. W. B. Macey  
Executive Secretary  
New Mexico Oil Conservation Commission  
Santa Fe, New Mexico

Re: East Bagley Unit Agreement

Dear Mr. Macey:

We are in the process of preparing a unit agreement and applications for approval of the same by the Conservation Commission and by the Commissioner of Public Lands; however, due to the mimeographing work which has to be performed and delay in having the application to the Commission signed, it will probably be the latter part of next week before we can get the application to you; however, we would like, if possible, for you to include in your docket for the regular November hearings, the application which is to be filed and public notice of the hearing in sufficient time to be heard at the regular November hearing. For your information, in setting up the docket and publishing notice, this is to be the application of the Sunray Oil Corporation for approval of the East Bagley Unit Agreement embracing the S $\frac{1}{2}$  Section 4, E $\frac{1}{2}$  Section 8, All Section 9, T. 12 S., R. 34 E., N.M.P.M., Lea County, New Mexico, 1280 acres, all of which are state lands. The Sunray Oil Corporation is to be the operator and a test well is to be commenced in the SE $\frac{1}{4}$ NW $\frac{1}{4}$  Section 9 within 60 days from the time of the approval of the unit, and drilled to a depth sufficient to test the Devonian formation.

Should there be any additional information you need to get up the notice for publication, please call me collect LD 3.

Yours very truly,

HERVEY, DOW & HINKLE

BY Clarence E. Hinkle

BEFORE THE OIL CONSERVATION COMMISSION  
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. 794

THE APPLICATION OF SUNRAY OIL  
CORPORATION FOR APPROVAL OF THE  
EAST BAGLEY UNIT AGREEMENT  
EMBRACING 1,280 ACRES, MORE OR  
LESS, LEA COUNTY, NEW MEXICO,  
WITHIN TOWNSHIP 12 S., RANGE 34 E.,  
N.M.P.M.

New Mexico Oil Conservation Commission  
Santa Fe, New Mexico

Comes the undersigned, the Sunray Oil Corporation, with offices at Tulsa, Oklahoma, and files herewith three copies of the proposed Unit Agreement for the Development and Operation of the East Bagley Unit Area, Lea County, New Mexico, and hereby makes application for the approval of said Unit Agreement as provided by law, and in support thereof, shows:

1. That the proposed unit area covered by said agreement embraces 1,280 acres, more or less, more particularly described as follows:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

T. 12 S., R. 34 E.

Sec. 4: S $\frac{1}{2}$   
Sec. 8: E $\frac{1}{2}$   
Sec. 9: All

2. That the lands embraced within the proposed unit area are all State lands.

3. That applicant is informed and believes, and upon such information and belief, states: That the proposed unit area covers a substantial part of all of the geological features involved, and in the event of the discovery of oil or gas thereon, that said unit agreement will permit the producing area to be developed and operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That the Sunray Oil Corporation is designated as unit operator in said unit agreement, and as such is given authority under the terms

thereof to carry on all operations necessary for the development and operation of the unit area for oil and gas, subject to all applicable laws and regulations. That said unit agreement provides for the commencement of a test well for oil and gas upon some part of the lands embraced in the unit area within 60 days from the effective date of said unit agreement and for the drilling thereof with due diligence, to a depth sufficient to test the Devonian formation or to such a depth as unitized substances shall be discovered in paying quantities if at a lesser depth; provided, however, operator is not required in any event to drill said well to a depth in excess of 13,500 feet.

5. That said unit agreement is in substantially the same form as unit agreements heretofore approved by the Commissioner of Public Lands of the State of New Mexico and by the New Mexico Oil Conservation Commission, and it is believed that in the event oil or gas in paying quantities is discovered on the lands within the unit area, that the field or area can be developed more economically and efficiently under the terms of said agreement, to the end that the maximum recovery will be obtained, and that said unit agreement is in the interest of the conservation of oil and gas and the prevention of waste as contemplated by the New Mexico Oil Conservation Commission statutes.

6. That application is being made for the approval of said unit agreement by the Commissioner of Public Lands of the State of New Mexico.

7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said unit agreement and after approval thereof by the Commissioner of Public Lands of the State of New Mexico, an approved copy thereof will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a public hearing be held on the matter of the approval of said unit agreement and that upon said hearing, said unit agreement be approved by the New Mexico Oil Conservation Commission as being in the interest

of conservation and prevention of waste.

DATED this the 0 day of \_\_\_\_\_, 1954.

Respectfully submitted,

SUNRAY OIL CORPORATION

128

By *D. W. Livingston*

Authorized Signature

Geological Report  
EAST BAGLEY UNIT  
Lea County, New Mexico

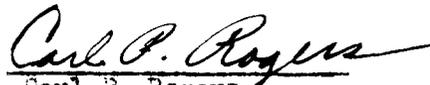
The proposed East Bagley Unit, Lea County, New Mexico is a result of seismic work done for Seaboard Oil Company and Sunray Oil Corporation under my supervision.

The enclosed seismic map on the Devonian horizon is a true and correct representation of the work done.

It is my recommendation that a well be drilled on this information, to be located in the SE of the NW of Section 9, T.12S., R.34E., and drilled to a depth of about 13,500 or sufficient to test the Devonian.

Respectfully submitted

  
Clarence Sykes, Jr.  
District Geologist  
Sunray Oil Corp.

  
Carl P. Rogers  
District Geologist  
Seaboard Oil Company

Nov. 8, 1954

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

November 23, 1954

Mr. Clarence Hinkle, Attorney  
Hervey, Dow and Hinkle  
First National Bank Building  
ROSWELL, NEW MEXICO

Dear Mr. Hinkle:

In behalf of your clients, we enclose the following orders:

Order R-541 in Case 719 (E. G. Rodman)

Order R-550 in Case 794 (Sunray Oil Corporation's  
East Bagley Unit Agreement)

Order R-551 in Case 795 (Continental Oil Company's  
Williams Ranch Unit Agreement)

You will note that we have given you signed copies of the two unit agreement orders for completion of the records in these cases.

I also want to thank you for submitting the proposed orders in each of the cases you handled. As you know, when these follow our style and intention closely, as yours always do, it speeds up the signing procedure considerably.

Sincerely,

W. B. Macey

WBM:nr

Encl. (3)

In reply refer to:  
Unit Division

*Case file 794*

February 20, 1958

REGISTERED MAIL

Sunray Mid-Continent Oil Company  
P. O. Box 2039  
Tulsa 2, Oklahoma

re: East Bagley Unit  
Lea County, New Mexico

Gentlemen:

The terms of Section 16 of the East Bagley Unit Agreement, state that the unit shall remain in effect so long as unitized substances can be produced in paying quantities.

Sunray Mid-Continent Oil Company, operator of the unit, have stated that the well will never pay out. After studying the production record of this well, it is apparent it is not capable of producing in "paying quantities."

Therefore, this office is giving you thirty days notice to show cause why this unit should not be terminated effective as of March 19, 1958.

Very truly yours,  
MURRAY S. MORGAN,  
Commissioner of Public Lands

BY:

Ted Bilberry, Supervisor  
Oil and Gas Division

MEM/MSR/v  
cc:

Phillips Pet Co.  
Bartlesville, Okla.

Seaboard Oil Co.  
Dallas, Texas

Gulf Oil Corp.  
Fort Worth, Texas

Tidewater Association Oil Co.  
Tulsa, Okla.

Humble Oil & Refining Co.  
Houston, Texas

Warren Pet. Corp.  
Houston, Texas

Magnolia Pet. Co.  
Dallas 1, Texas

Oil Conservation Commission  
Santa Fe, New Mexico

**ILLEGIBLE**

SUNRAY MID-CONTINENT OIL COMPANY  
 P. O. BOX 2039  
 TULSA, OKLAHOMA

*E.L.*  
 COPY  
 277

March 3, 1958

Re: East Bagley Unit,  
 S2 Sec. 4, E2 Sec. 8,  
 All Sec. 9-12S-34E,  
 Lea County, New Mexico  
 RM7-F012 4-2/21/58

Mr. Murray E. Morgan,  
 Commissioner of Public Lands,  
 State Land Office,  
 Santa Fe, New Mexico

Your Re: Unit Division

Dear Sir:

In reply to your letter of February 20, 1958, in regard to the East Bagley Unit in Lea County, New Mexico, advising Sunray Mid-Continent Oil Company and other participants in said unit of a 30-day notice to show cause why this unit should not be terminated effective March 19, 1958.

We wish to advise Sunray Mid-Continent Oil Company, as operator, and the other participants in said unit, namely Phillips Petroleum Company, Gulf Oil Corporation, Humble Oil & Refining Company, Magnolia Petroleum Company, Seaboard Oil Company, Tidewater Associated Oil Company, and Warren Petroleum Company (now Gulf Oil Corporation) are in the process of making a farmout to Mr. Joe. I. O'Neill, Midland, Texas, subject to his drilling a 10,300' Pennsylvania test well on said unit.

As operator of the East Bagley Unit in Lea County, New Mexico, Sunray Mid-Continent is in the process of preparing a Farmout Agreement for Mr. O'Neill's acceptance. We are of the opinion the proposed test well should be commenced by Mr. O'Neill within thirty days from this date.

Very truly yours,

*I. W. Pilkington*

I. W. Pilkington  
 Division Landman

INP/l4g

CC: Seaboard Oil Company  
 P.O.Box 352, Midland, Texas  
 Att: Mr. E. M. Head

Magnolia Petroleum Co.  
 P.O.Box 662, Roswell, N.M.  
 Att: Mr. S. P. Hannifin

Seaboard Oil Company  
 Continental Bldg., Dallas, Texas  
 Att: Mr. E. H. Watkins

Magnolia Petroleum Co.,  
 Dallas 1, Texas

Warren Petroleum Corp.,  
 Houston, Texas

Oil Conservation Commission  
 Santa Fe, New Mexico

SUNRAY MID-CONTINENT OIL COMPANY

P. O. BOX 2039  
TULSA, OKLAHOMA

Mr. Murray E. Morgan

-2-

3/3/58

COPY

cc: Phillips Petroleum Company  
P. O. Box 1114, Roswell, N.M.  
Att: Mr. H. H. Northington

Phillips Petroleum Company  
P. O. Box 791, Midland, Texas  
Att: Mr. C. F. Keller

Phillips Petroleum Company  
Bartlesville, Oklahoma  
Att: Mr. Jimmie Sneed

Humble Oil and Refining Co.,  
P. O. Box 1287, Roswell, N.M.  
Att: Mr. H. M. Richardson

Humble Oil and Refining Co.,  
Houston, Texas

Tidewater Associated Oil Co.  
P.O.Box 972, Roswell, New Mexico  
Att: Mr. H. C. Powless

Tidewater Associated Oil Co.  
P. O. Box 731, Tulsa, Oklahoma  
Att: Mr. J. Q. Small

Gulf Oil Corporation,  
P. O. Box 669, Roswell, N.M.  
Att: Mr. S. H. Cavin

Gulf Oil Corp.,  
Fort Worth, Texas  
Att: F. E. Curtis, Jr.

CERTIFICATE OF APPROVAL  
BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO  
OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION  
OF EAST BAGLEY 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, an agreement for the development and operation of the East Bagley Unit Area, Lea County, New Mexico, dated the 3 day of December 1954, in which the Sunray Oil Corporation is designated as Operator, and which has been executed by various parties owning and holding oil and gas leases embracing 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 unitization of reservoir energy in said field;
- (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 field, 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 the Laws of the State of New Mexico, 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 above referred to East Bagley Unit Agreement as to the lands of the State of New Mexico committed thereto, and all oil and gas leases embracing lands of the State of New Mexico committed to said Agreement shall be and the same are hereby amended so that the provisions thereof will conform to the provisions of said Unit Agreement and so that the length of the secondary term of each such lease as to the lands within the unit area will be extended, insofar as necessary, to coincide with the terms of said Unit Agreement, and in the event the term of said Unit Agreement shall be extended as provided therein such extension shall also be effective to extend the term of each oil and gas lease embracing lands of the State of New Mexico committed to said Unit Agreement which would otherwise expire, so as to coincide with the extended term of such Unit Agreement.

IN WITNESS WHEREOF, this certificate of approval is executed as of this the 5<sup>th</sup> day of April, 1955.

  
\_\_\_\_\_  
Commissioner of Public Lands of the  
State of New Mexico.

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
EAST BAGLEY UNIT  
LEA COUNTY, NEW MEXICO

TRM4--EX4

THIS AGREEMENT, entered into as of the 3rd day of December, 1954, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other oil 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 "Commissioner") is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chapter 162, Laws of 1951) to amend with the approval of lessee, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and 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 an Act of the Legislature (Chap. 72, Laws 1935) to approve this agreement and the conservation provisions hereof; and

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

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

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

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

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

T. 12 S., R. 34 E., Lea County

Sec. 4: S 1/2

Sec. 8: E 1/2

Sec. 9: All

containing 1,280 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage and

kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in ownership in the unit area render such revision necessary.

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

2. UNITIZED SUBSTANCES. All oil, gas, natural gasoline and associated fluid hydrocarbons 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. Sunray Oil 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 but such resignation shall not become effective until a successor Unit Operator has been selected and approved in the manner provided for in Article 5 of this agreement. 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 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 a majority vote select a successor Unit Operator; provided that, if a majority but less than 65 per cent of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than 65 per cent of the total working interests, 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 and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement by and between the Unit Operator and the other owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this article, whether one or more, are herein referred to as the "Operating Agreement". No such agreement

shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

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 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. Within 60 days after the effective date hereof, the Unit Operator shall commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to test the Devonian formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of

the Unit Operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 13,500 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities, Unit Operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner, or until it is reasonably proven to the satisfaction of the Unit Operator that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Failure to comply with the drilling provisions of this article shall automatically terminate this agreement as to all its terms, conditions and provisions and all rights, privileges and obligations granted by this unit agreement shall cease and terminate as of the date of any such default.

9. PARTICIPATION 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 covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties 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 respectively committed to this agreement 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 to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

10. ALLOCATION OF PRODUCTION. All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an

acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tract of said unitized area.

11. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES.

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

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 the 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.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

12. LEASES AND CONTRACTS CONFORMED AND EXTENDED IN-SO FAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA. The terms, conditions and provisions of all leases, sub-leases, 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 insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the length of the secondary term as to lands within such area will be extended insofar as necessary to coincide with the term of this agreement and the approval of this agreement by the Commissioner and the lessee shall, without further action of the Commissioner or the lessee, be effective to conform the provisions and extend the term of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, 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 laws shall continue in full force and effect thereafter. The commencement, completion, operation or production of a well on any part of the unit area shall be respectively construed and considered as the commencement or completion or operation or production of a well within the terms and provisions of each of the oil and gas leases to the same extent as though such commencement, completion, operation or production was carried on, conducted and/or obtained from any such leased tract.

Any lease having only a portion of its lands committed hereto shall be segregated as to the portion committed and to the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if unitized substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary

term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of unitized substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as unitized substances in paying quantities are being produced from any portion of said lands.

13. 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 regulation.

14. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized lands by wells on land not subject to this agreement.

15. 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.

16. EFFECTIVE DATE AND TERM. This agreement shall become effective 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) a valuable 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 by not less than 65 per cent on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner. Likewise, as provided in Article 8 hereof, the failure to comply with the drilling provisions of this unit agreement shall as of the date of any such default, automatically terminate this unit agreement.

17. 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.

18. 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.

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

20. 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.

21. LOSS OF TITLE. In the event title to any tract of 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, and the interest of the parties readjusted as a result of such tract being 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.

22. 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 the operating agreement providing for 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, but such joining party or parties before participating in any benefits hereunder shall be required to assume and pay to Unit Operator their proportionate share of the unit expense incurred prior to such party's or parties' joinder in the Unit Agreement, and the Unit Operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

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

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

ATTEST:

*Barney H. Harris*  
**ASSISTANT** Secretary

Date 12-20-54

SUNRAY OIL CORPORATION

By *H. J. ...*  
 Vice-President

Address: P. O. Box 2039  
 Tulsa, Oklahoma

UNIT OPERATOR AND WORKING  
 INTEREST OWNER

APPROVED	
Land	<i>[Signature]</i>
Lease	<i>[Signature]</i>
Production	<i>[Signature]</i>
Ins.	<i>[Signature]</i>
Accounting	<i>[Signature]</i>
Engineering	<i>[Signature]</i>
Legal	<i>[Signature]</i>

ATTEST:

[Signature]  
Assistant Secretary H. M. CRAIG

Date: 3-1-55

ATTEST:

[Signature]  
Assistant Secretary

Date: 3-17-55

ATTEST:

[Signature]  
Secretary

Date: 3-29-55

ATTEST:

[Signature]  
Assistant Secretary

Date: 3-24-55

ATTEST:

[Signature]  
Assistant Secretary

Date: DEC 22 1954

ATTEST:

[Signature]  
Asst. Secretary

Date: MAR 25 1955

ATTEST:

[Signature]  
Assistant Secretary

Date: MAR 17 1955

GULF OIL CORPORATION

By [Signature]  
Vice President

Address: P. O. Drawer 1290  
Fort Worth, Texas

HUMBLE OIL & REFINING COMPANY TRADE O. K. W. R. MALEY

By [Signature]  
Vice President

Address: Humble Building  
Houston, Texas

MAGNOLIA PETROLEUM COMPANY

By [Signature]  
Vice President

Address: P. O. Box 900  
Dallas, Texas

PHILLIPS PETROLEUM COMPANY

By [Signature]  
VICE President

Address: Bartlesville  
Oklahoma

SEABOARD OIL COMPANY

By [Signature]  
Vice President

Address: 1400 Continental Bldg.  
Dallas, Texas

TIDE WATER ASSOCIATED OIL COMPANY

By [Signature]  
Vice President

Address: Box 731  
Tulsa, Oklahoma

WARREN PETROLEUM CORPORATION

By [Signature]  
~~President~~ AGENT

Address: No. City National Bank Bldg  
London, Texas

Billy Bert Childers

Address: \_\_\_\_\_

\_\_\_\_\_

Ralph Lowe

Address: \_\_\_\_\_

\_\_\_\_\_

*W. Neal*  
*W. Neal*

Caswell S. Neal

Address: *Short Bldg*

*Caulfield Ave*

*Eva F. Neal*

Eva F. Neal

Address: *Short Bldg*

*Caulfield Ave*

Ralph Nix

Address: \_\_\_\_\_

\_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Magdalene Pearl Childers

Address: \_\_\_\_\_

\_\_\_\_\_

M & M PRODUCTION COMPANY

By \_\_\_\_\_

President

ATTEST: \_\_\_\_\_

Secretary

Address: \_\_\_\_\_

\_\_\_\_\_

Frances Nix

Address: \_\_\_\_\_

\_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

New Mexico  
2. Corp.

STATE OF Texas )  
COUNTY OF Harris ) SS

On this 21 day of March, 1955, before me personally appeared P. A. Lyons, to me personally known, who being by me duly sworn, did say that he is the agent President of Harris Petroleum Corporation and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said P. A. Lyons acknowledged said instrument to be the free act and deed of said corporation.

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

June Fajardo  
Notary Public  
JUNE FAJARDO

My Commission Expires:

6-1-55

STATE OF TEXAS )  
COUNTY OF TARRANT ) SS

On this 1st day of March, 1955, before me personally appeared, H. N. BAYER, to me personally known, who being by me duly sworn, did say that he is the Vice President of Gulf Oil Corporation and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said H. N. BAYER acknowledged said instrument to be the free act and deed of said corporation.

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

Eva Marie Cooper  
Notary Public  
Eva Marie Cooper

My Commission Expires:

June 1, 1955

New Mexico  
2. Corp.

STATE OF TEXAS )  
COUNTY OF HARRIS ) SS

On this 17 day of MARCH, 1955, before me personally appeared DAVID FRAME, to me personally known, who being by me duly sworn, did say that he is the Vice President of HUMBLE OIL & REFINING COMPANY and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said DAVID FRAME acknowledged said instrument to be the free act and deed of said corporation.

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

Iris Beard IRIS BEARD  
Notary Public NOTARY PUBLIC IN AND FOR  
HARRIS COUNTY, TEXAS

My Commission Expires:

my Commission Expires June 1, 1955

STATE OF Oklahoma )  
COUNTY OF Washington ) SS

On this 24 day of March, 1955, before me personally appeared, C. O. Stark, to me personally known, who being by me duly sworn, did say that he is the Vice President of Phillips Petroleum Company and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said C. O. Stark acknowledged said instrument to be the free act and deed of said corporation.

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

Nadene Shelton  
Notary Public

My Commission Expires:

12-29-57

New Mexico  
2. Corp.

STATE OF Oklahoma )  
COUNTY OF Tulsa ) SS

On this 25<sup>th</sup> day of March, 1955, before me personally appeared J. E. Roll, to me personally known, who being by me duly sworn, did say that he is the Vice President of \_\_\_\_\_

Tide Water Associated Oil Company  
and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. E. Roll acknowledged said instrument to be the free act and deed of said corporation.

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

Richard B. Wiley  
Notary Public

My Commission Expires:

March 19, 1956

STATE OF Oklahoma )  
COUNTY OF Tulsa ) SS

On this 20<sup>th</sup> day of December, 1954, before me personally appeared, H. O. Harder, to me personally known, who being by me duly sworn, did say that he is the Vice President of \_\_\_\_\_

Sunray Oil Corporation  
and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said H. O. Harder acknowledged said instrument to be the free act and deed of said corporation.

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

Daisy M. Mims  
Notary Public

My Commission Expires:

3.4.57

New Mexico  
2. Corp.

STATE OF Texas )  
COUNTY OF Dallas ) SS

On this 27<sup>nd</sup> day of December, 1954, before me personally appeared J. W. Rawley, to me personally known, who being by me duly sworn, did say that he is the Vice President of SEABOARD OIL COMPANY

and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. W. Rawley acknowledged said instrument to be the free act and deed of said corporation.

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

Margaret Connolly  
Notary Public

Margaret Connolly  
Notary Public, Dallas County, Texas

My Commission Expires:

June 1, 1955

STATE OF Texas )  
COUNTY OF Dallas ) SS

On this 29<sup>th</sup> day of March, 1955, before me personally appeared, R. M. CHAN, to me personally known, who being by me duly sworn, did say that he is the Vice President of MAGNOLIA PETROLEUM COMPANY

and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said R. M. CHAN acknowledged said instrument to be the free act and deed of said corporation.

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

Gladys H. Walters  
Notary Public

GLADYS H. WALTERS, Notary Public  
In and for Dallas County, Texas

My Commission Expires:

6-1-55

STATE OF New Mexico )  
COUNTY OF Eddy )SS

On this 31 day of March, 1954, before me personally appeared Carroll S. Neal and Eda F. Neal his wife to me personally known to be the person § described in and who executed the foregoing instrument, and acknowledged that They executed the same as their free act and deed.

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

My Commission Expires:

5-22-57

Allen M. Jackson  
Notary Public

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

On this \_\_\_\_\_ day of \_\_\_\_\_, 195\_\_, before me personally appeared \_\_\_\_\_ to me personally known to be the person \_\_\_ described in and who executed the foregoing instrument, and acknowledged that \_\_\_ he \_\_\_ executed the same as \_\_\_\_\_ free act and deed.

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

My Commission Expires:

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

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

On this \_\_\_\_\_ day of \_\_\_\_\_, 195\_\_, before me personally appeared \_\_\_\_\_ to me personally known to be the person \_\_\_ described in and who executed the foregoing instrument and acknowledged that \_\_\_ he \_\_\_ executed the same as \_\_\_\_\_ free act and deed.

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

My Commission Expires:

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

EXHIBIT "A"

(Attached to and made a part of Unit Agreement for the  
Development and Operation of the East Bagley Unit,  
Lea County, New Mexico)