

THE SOMBRERO UNIT AGREEMENT  
LEA COUNTY, NEW MEXICO

WHEREAS, the undersigned Skelly Oil Company (hereinafter referred to as "Skelly") owns and holds three (3) certain valid and subsisting oil and gas leases on and covering the land hereinafter described and thus has effective control of the oil and gas operations therein and thereon; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico 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 unitized development or operation of State lands as to part of or all of any oil or gas pool, field or area lying thereunder; 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 the 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 unitized development and operation of State lands; 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 of 1935) to approve this instrument and the conservation provisions hereof; and

WHEREAS, Skelly desires to conserve natural resources, prevent waste and secure all other benefits obtainable through unitized development and operation of the area subject to this

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Oil  
Skelly Oil Co.  
1173

instrument pursuant to and in accordance with the terms, conditions and limitations hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the benefits to be derived herefrom, the undersigned Skelly Oil Company hereby declares that:

1.

UNIT AREA

Skelly, in the exercise of the right and power which it has as the owner of said oil and gas leases described in Exhibit "B", does declare that said leases shall be and the same are hereby pooled, combined and unitized so as to form a unit composed of the following described land, which said land is hereby designated and recognized as constituting the Sombrero Unit Area:

East Half (E/2) of Section 11 and West Half (W/2) of Section 12, Township 16 South, Range 33 East, N.M.P.M., Lea County, New Mexico, containing 640 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 Skelly. Exhibit "B" attached hereto is a schedule showing to the extent known to Skelly the acreage, percentage and kind of ownership of oil and gas interests in all land in the unit area. Exhibits "A" and "B" shall be revised by Skelly whenever changes in the unit area render such revision necessary, or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner".

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

(a) Skelly, on its own motion or on demand of the Commissioner, 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 whose interests are affected by such expansion, advising that thirty (30) days will be allowed for submission to Skelly of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b), Skelly 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 Skelly.

(d) Upon approval by the Commissioner, after due consideration of all pertinent information and after due notice and hearing, such expansion shall become effective as of the date prescribed in the notice thereof.

All land affected by this instrument shall constitute land referred to herein as "unitized land" or "land subject to this instrument".

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 instrument and herein are called "unitized substances".

3.

DRILLING TO DISCOVERY

Within sixty (60) days after the effective date hereof, Skelly shall commence, or cause to be commenced, operations for the drilling of a test well for oil and gas at a location

described as being 660 feet from the West line and 1980 feet from the North line of Section 12, Township 16 South, Range 33 East, to an approximate depth of 12,800 feet or to a depth sufficient, in the opinion of Skelly, to test the Pennsylvanian Formation, whichever is the lesser depth, or to such lesser depth as unitized substances shall be discovered in paying quantities, or until in the opinion of Skelly it shall be determined that the further drilling of said well shall be unwarranted or impracticable. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, Skelly shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner and the Commission, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted.

Upon failure to comply with the drilling provisions of this section, the Commissioner may after reasonable notice to Skelly at its last known address declare this instrument terminated.

3-A

PLAN OF FURTHER DEVELOPMENT AND OPERATION

Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, Skelly shall submit for the approval of the Commissioner, and the Commission, an acceptable plan of development and operation

for the unitized land which, when approved by the Commissioner, and the Commission, shall constitute the further drilling and operating obligations of Skelly under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, Skelly shall submit for the approval of the Commissioner, and the Commission, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Commissioner, and the Commission, may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Commissioner and the Commission. Such plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of this approved plan of development. The Commissioner is authorized to grant a reasonable extension of the six (6) month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of

producing any unitized substances in paying quantities no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Commissioner shall be drilled except in accordance with a plan of development approved as herein provided.

4.

PARTICIPATION AND ALLOCATION OF  
PRODUCTION AFTER DISCOVERY

All unitized substances produced from the unit area, except any part thereof used within the unit area for production or development purposes or unavoidably lost, shall be deemed produced equally on an acreage basis from the several tracts of unitized land and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of production as the number of acres of such tract bears to the total number of acres of unitized land within the unit area.

5.

PAYMENT OF RENTALS, ROYALTIES  
AND OVERRIDING ROYALTIES

All rentals due the State of New Mexico shall be paid by Skelly in accordance with the terms of its leases.

All royalties due the State of New Mexico under the terms of the leases affected by this instrument 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 Skelly shall make deliveries of such royalty oil in accordance with the terms of its respective leases.

If Skelly 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 instrument.

6.

STATE LEASES AND CONTRACTS CONFORMED  
AND EXTENDED INSOFAR AS THEY APPLY TO  
LANDS WITHIN THE UNITIZED AREA

Upon approval hereof by the Commissioner, the terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation of State of New Mexico lands for oil and gas purposes which are affected by this instrument, shall be and the same are hereby expressly modified and amended insofar as they apply to such 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 of such leases on and covering such lands within said area will be extended insofar as necessary to coincide with the terms of this instrument and the approval hereof by the Commissioner shall, without further action of the Commissioner, 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 hereof; but otherwise to remain in full force and effect. Each such lease affected by this instrument insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein so long as this instrument 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 Skelly prior to the expiration of the shortest term lease committed to this instrument. Termination of this instrument 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 embracing lands of the State of New Mexico having only a portion of such lands committed hereto shall be segregated as to that portion committed and that portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Provided, however, that notwithstanding

any of the provisions hereof to the contrary, any such lease 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, Skelly 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.

7.

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.

8.

DRAINAGE

Skelly shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized lands by wells on land not subject to this instrument.

9.

EFFECTIVE DATE AND TERM

This instrument shall become effective upon approval by the Commissioner and shall terminate two (2) 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 instrument 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. Likewise, as provided in Article 3 hereof, the Commissioner, after reasonable notice to Skelly, may declare this instrument to be of no further force or effect.

10.

RATE OF PRODUCTION

All production from the unit area 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.

11.

UNAVOIDABLE DELAY

All obligations hereunder requiring Skelly to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this instrument shall be suspended while, but only so long as, Skelly, 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 Skelly whether similar to matters herein enumerated or not.

IN WITNESS WHEREOF, this instrument is executed as of  
the \_\_\_\_\_ day of \_\_\_\_\_, 1956.

APP'D AS TO  
FORM: Hev

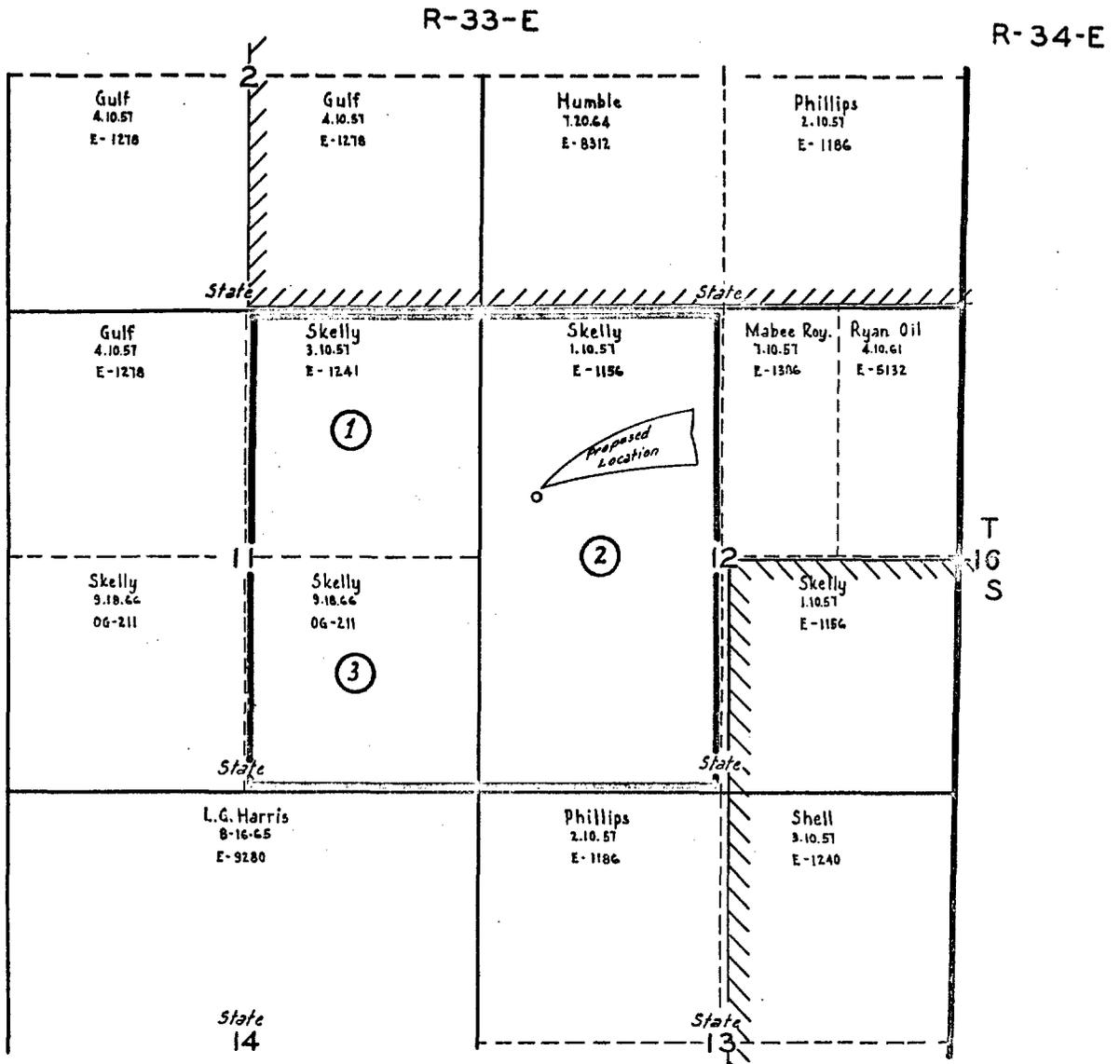
SKELLY OIL COMPANY

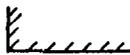
ATTEST:

\_\_\_\_\_  
Secretary

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

Skelly Building  
Tulsa, Oklahoma



 South Saunders Unit - Humble Oil & Ref. Co.-Operator

 Seaman Unit - Sinclair Oil Co.-Operator

 Sombrero Unit - Skelly Oil Co.-Operator

 Tract No.

EXHIBIT "A"  
 SKELLY OIL COMPANY-OPERATOR  
**SOMBRERO UNIT**  
 T-16-S R-33-E  
 LEA COUNTY, NEW MEXICO

SCALE: 1" = 2000'

EXHIBIT "B"

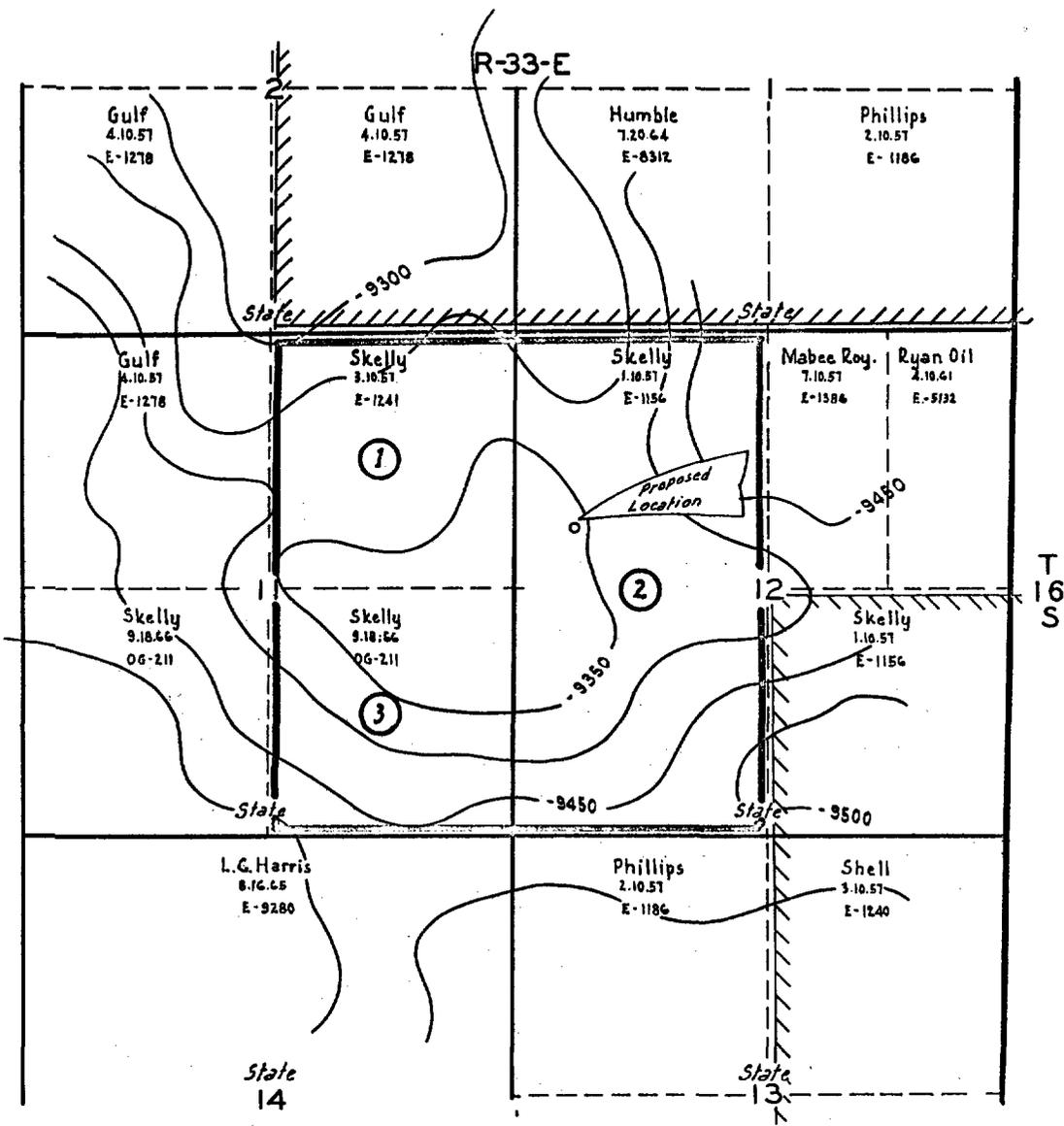
SOMBRERO UNIT

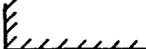
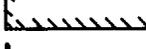
SKELLY OIL COMPANY, Operator

Schedule of Ownership of Oil & Gas Interests Under Unit Agreement

| Tract No. & Description                | No. of Acres | New Mexico State Lease No. & Date | Basic Royalty | Record Owner of Lease | Over-riding Royalty | Working Interest Owner and Part of Working Interest Owned Under Option Agreement, Operating Agreement or Assignment |        |
|--|--------------|-----------------------------------|---------------|-----------------------|---------------------|---|--------|
| Tract No. 1<br>NE¼ Sec. 11-<br>16S-33E | 160.00       | E-1241<br>(3-10-47)               | 12.50%        | Skelly                | None                | Skelly Oil Company<br>P. O. Box 1650<br>Tulsa, Oklahoma   | 87.50% |
| Tract No. 2<br>W2 Sec. 12-<br>16S-33E  | 320.00       | E-1156<br>(1-10-47)               | 12.50%        | Skelly                | None                | Skelly Oil Company  | 87.50% |
| Tract No. 3<br>SE¼ Sec. 11-<br>16S-33E | 160.00       | OG-211<br>(9-18-56)               | 12.50%        | Skelly                | None                | Skelly Oil Company  | 87.50% |
| * Total Unit Area                      |              |                                   |               |                       |                     |   |        |
| <u>640.00</u>                          |              |                                   |               |                       |                     |   |        |

\* - All State of New Mexico Lands.



-  South Saunders Unit - Humble Oil & Ref. Co.-Operator
-  Seaman Unit - Sinclair Oil Co.-Operator
-  Sombrero Unit - Skelly Oil Co.-Operator
-  Tract No.

**EXHIBIT "C"**  
**SKELLY OIL COMPANY-OPERATOR**  
**SOMBRERO UNIT**  
 T-16-S R-33-E  
 LEA COUNTY, NEW MEXICO  
 GEOLOGICAL INTERPRETATION  
 Near top Devonian

SCALE: 1" = 2000'