

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
HAT MESA UNIT AREA  
COUNTY OF LEA  
STATE OF NEW MEXICO

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EXHIBITS

- Exhibit "A" - Map of Unit Area
- Exhibit "B" - Schedule of Ownership in Lands

<p><b>BEFORE EXAMINER UTZ</b></p> <p>OIL CONSERVATION COMMISSION</p> <p>EXHIBIT NO. <u>1</u></p> <p>CASE NO. <u>3560</u></p>
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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
HAT MESA UNIT AREA  
COUNTY OF LEA  
STATE OF NEW MEXICO

NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 22nd day of March, 1967  
by and between the parties subscribing, ratifying, or consenting hereto, and  
herein referred to as the "parties hereto,"

W I T N E S S E T H:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico  
is authorized by an Act of the Legislature (Sec. 7-11-39 N.M. Statutes 1953  
Annotated) to consent to or approve this agreement on behalf of the State of  
New Mexico, in so far as it covers and includes lands and mineral interests  
of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico  
is authorized by an Act of the Legislature (Art. III, Ch. 65, Vol. 9, part 2,  
Statutes 1953 Annotated) to approve this agreement and the conservation  
provisions hereof; and

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

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

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

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

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

Township 21 South, Range 32 East, N.M.P.M.

Section 1: Lots 11, 12, 13, 14 and S/2  
Section 2: Lots 9, 10, 11, 12, 13, 14,  
15, 16 and S/2  
Section 3: SE/4  
Section 10: E/2  
Section 11: All  
Section 12: All  
Section 13: All  
Section 14: N/2 and SE/4  
Section 24: N/2

Township 21 South, Range 33 East, N.M.P.M.

Section 6: Lot 18, and SE/4 SW/4  
Section 7: Lots 1, 2, 3, 4, E/2 W/2, E/2  
Section 8: All  
Section 9: W/2  
Section 16: W/2  
Section 17: All  
Section 18: Lots 1, 2, 3, 4, E/2 W/2, E/2  
Section 19: Lots 1, 2, E/2 NW/4, NE/4

Containing 7874.03 acres, more or less

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner," and not less than six (6) copies of the revised exhibits shall be filed with the Supervisor, and two (2) copies thereof shall be filed with the Commissioner and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission."

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

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director," or on demand of the Commissioner, but only after preliminary concurrence by the Director and the Commissioner shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Supervisor, the Commissioner and the State Commission and copies thereof mailed to the last known address of

each working interest owner, lessee, and lessor whose interests are affected, advising that thirty (30) days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, the Commissioner and the State Commission evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction and with appropriate joinders.

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

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys; however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within five (5) years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of unit operator as set forth in the section entitled

"Unavoidable Delay;" provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within ten (10) years after said first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "Unavoidable Delay" time shall be made by unit operator and subject to approval of the Director and the Commissioner. The unit operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and the Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this subsection 2 (e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty interests of the United States and the State of New Mexico), on a total-nonparticipating acreage basis, respectively, with approval of the Director and the Commissioner provided such extension application is submitted to the Commissioner and the Director not later than 60 days prior to the expiration of said 10-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2 (e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement." All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances."

4. UNIT OPERATOR. Phillips Petroleum Company, with offices in Midland, Texas, is hereby designated as Unit Operator and by signature hereto as Unit Operator commits to this agreement all interests in unitized substances vested in it 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 interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

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

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

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

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

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by working interest owners, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator: Provided, that, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until:

(a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and

(b) the selection shall have been filed with the Supervisor and approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and Commissioner at their election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses

incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between the unit agreement and the unit operating agreement, this unit agreement shall prevail. Three (3) true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor and one (1) true copy with the Commissioner, prior to approval of this unit agreement.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it

being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor if on Federal land or by the Commissioner if on State Land, or by the State Commission if on privately owned land, if any, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Devonian Formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if on Federal land, of the Commissioner if on State land, or of the State Commission if on privately owned land, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 15,500 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 6 months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Commissioner if on State land or the State Commission if on privately owned land or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Commissioner may modify the drilling requirements of this section by granting

reasonable extensions of time when, in their opinion, such action is warranted.

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

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor and the Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Commissioner, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor and the Commissioner 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 diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor and the Commissioner may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

(a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and

(b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources.

Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor and the Commissioner.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations

of the approved plan of development. The Supervisor and Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor and the Commissioner, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor or the Commissioner the Unit Operator shall submit for approval by the Director and the Commissioner a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director and the Commissioner to constitute a participating area, effective as of the date of completion of such well or the effective date of the unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of the initial participating area. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director and the Commissioner. The participating area or areas so established shall be

revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director and the Commissioner. No land shall be excluded from a participating area on account of depletion of the unitized substances.

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

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

Whenever it is determined, subject to the approval of the Supervisor, as to wells drilled on Federal land and of the Commissioner as to wells drilled

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, and Commissioner, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn

from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NONPARTICIPATING LAND OR FORMATIONS.

Any party or parties hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the Supervisor as to Federal land, the Commissioner as to State land, and the State Commission as to privately owned land, and subject to the non-conflicting provisions of the Unit Operating Agreement, at such party's or parties' sole risk, costs, and expense drill a well at such location on such land to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

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

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

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

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated in unitized Federal land as provided herein at the rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation;

provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

Royalty due the State of New Mexico shall be computed and paid on the basis of the amounts allocated to unitized State land as provided herein at the rate specified in the State oil and gas lease.

Royalty due on account of privately owned lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

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

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases.

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

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient

recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

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

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas of lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary as to Federal leases and the Commissioner as to State leases shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

(b) Drilling and producing operations performed hereunder upon

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

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

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands, other than those of the United States and State of New Mexico, committed to this agreement, which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production is had in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with the provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act Revision of 1960.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which

the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) Any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof, subject to the provisions of subsection (e) of Section 2, and subsection (i) of this Section 18.

(h) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, 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 oil or gas is discovered and is capable of being produced in paying quantities from some part of the lands embraced in such lease 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 oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Secretary and the Commissioner or their duly authorized representatives as of the date of approval by the Secretary and shall terminate five (5) years from said effective date unless:

(a) such date of expiration is extended by the Director and the Commissioner, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Director and Commissioner, or

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or

(d) it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the owners of working interests signatory hereto, with the approval of the Director and Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico, as to the rate of prospecting and developing in the

absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the State Commission.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working interest owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provision thereof to the extent that the Unit Operator, working interest owners or any of them are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or thing concerning which it is required herein that such concurrence be obtained. The parties hereto, including the State Commission, agree that all powers and authority vested in the State Commission in and by any provisions of this agreement are vested in the State Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

23. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior, the Commissioner of Public Lands of the State of New Mexico and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of said Department, the State Commission or Commissioner or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, the Commissioner, or State Commission or any

other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

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

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

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

27. NONDISCRIMINATION. In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of section 202 (1) to (7) inclusive, of Executive Order 11246, as amended, (30 FR 12319), which are hereby incorporated by reference in this agreement.

28. RECLAMATION LANDS. Nothing in this agreement shall modify the special, Federal-lease stipulations, if any, applicable to lands under the jurisdiction of the Bureau of Reclamation.

29. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment of delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of funds due the United States or the State of New Mexico should be withheld, but such funds of the United States shall be deposited as directed by the Supervisor and such funds of the State of New Mexico shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

30. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director, the Commissioner, and the Unit Operator prior to the approval of this agreement by the Commissioner and the Director. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner

is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor and the Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Director or the Commissioner, provided, that as to State lands all subsequent joinders must be approved by the Commissioner.

31. PROTECTION OF POTASH DEPOSITS. No wells will be drilled for oil or gas at a location on Federal lands which in the opinion of the Supervisor or at a location on State lands which in the opinion of the Commissioner would result in undue waste of potash deposits or constitute a hazard to or unduly interfere with mining operations being conducted for the extraction of potash deposits.

The drilling or abandonment of any well on unitized land shall be done in accordance with applicable oil and gas operating regulations, including such requirements as to Federal lands as may be prescribed by the Supervisor and as to State lands by the Commissioner, as necessary to prevent the infiltration of oil, gas or water into formations containing potash deposits or into mines or workings being utilized in the extraction of such deposits.

Well records and survey plats that an oil and gas lessee of Federal lands must file pursuant to applicable operating regulations (30 CFR Part 221) shall be available for inspection at the Office of the Supervisor to any party

holding a potash permit or lease on the Federal land on which the well is situated insofar as such records are pertinent to the mining and protection of potash deposits.

32. 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 parties hereto have caused this agreement to be executed and set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER

Date: \_\_\_\_\_

PHILLIPS PETROLEUM COMPANY

P. O. Box 791  
Midland, Texas 79701

By \_\_\_\_\_  
Attorney-in-Fact

OTHER WORKING INTEREST OWNERS

Date: \_\_\_\_\_

UNION OIL COMPANY OF CALIFORNIA

\_\_\_\_\_  
\_\_\_\_\_

By \_\_\_\_\_

Date: \_\_\_\_\_

GULF OIL CORPORATION

\_\_\_\_\_  
\_\_\_\_\_

By \_\_\_\_\_

Date: \_\_\_\_\_

RALPH LOWE ESTATE

\_\_\_\_\_  
\_\_\_\_\_

By \_\_\_\_\_

Date: \_\_\_\_\_

UNION PRODUCING COMPANY

\_\_\_\_\_  
\_\_\_\_\_

By \_\_\_\_\_

Date: \_\_\_\_\_

PAN AMERICAN PETROLEUM CORPORATION

\_\_\_\_\_

By \_\_\_\_\_

Date: \_\_\_\_\_

SINCLAIR OIL & GAS COMPANY

\_\_\_\_\_

By \_\_\_\_\_

Date: \_\_\_\_\_

SUPERIOR OIL COMPANY

\_\_\_\_\_

By \_\_\_\_\_

THE STATE OF TEXAS     Ø

COUNTY OF MIDLAND     Ø

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared FRED FORWARD, Attorney-in-Fact for PHILLIPS PETROLEUM COMPANY, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that the same was the act of the said PHILLIPS PETROLEUM COMPANY, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, 1967.

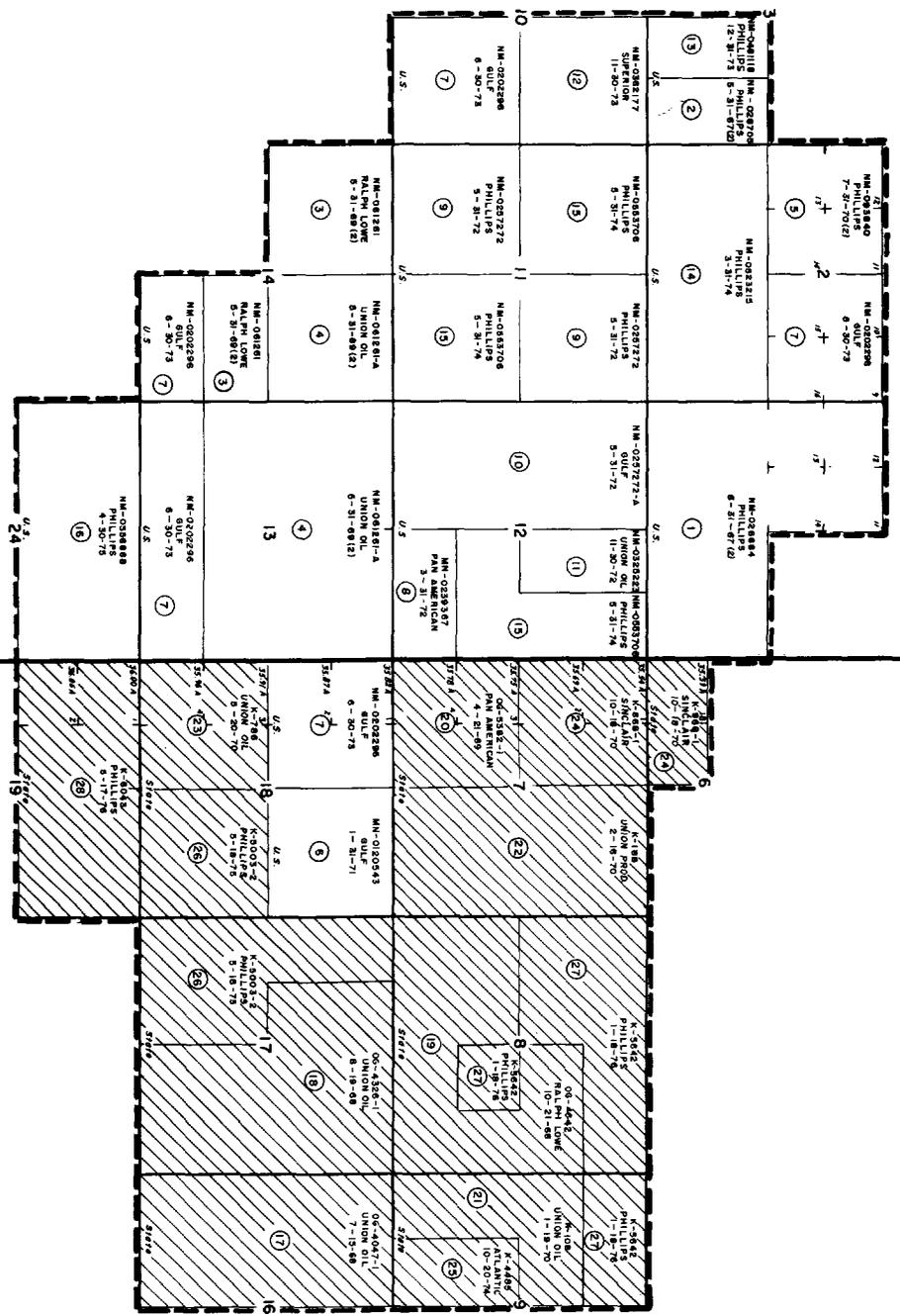
\_\_\_\_\_  
Notary Public in and for Midland County,  
Texas.

R 32 E

R 33 E

T 21 S

T 21 S



LEGEND

- Tract Number
- - - Unit Outline, 7,874.03 Acres
- Federal Land, 4,631.69 Acres
- ▨ State of New Mexico Land, 3,242.34 Acres

HAT MESA UNIT AREA  
LEA COUNTY, NEW MEXICO

EXHIBIT "A"

EXHIBIT "B"  
 SCHEDULE SHOWING ALL LANDS AND OWNERSHIP  
 WITHIN THE UNIT AREA  
 HAT MESA UNIT, IEA COUNTY, NEW MEXICO

F E D E R A L L A N D

TRACT NO.	DESCRIPTION OF LAND	ACRES	LEASE NO. & EXP. DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
1.	T-21S, R-32E Sec. 1: Lots 11, 12, 13, 14, S/2	480.00	NM-026684 8-31-67 (2)	U.S.A.: 12-1/2%	Phillips Petroleum Co.	Beard Oil Co. - 2-7/8% Amex Pet. Corp. - 1-1/8% Bruce Anderson - 1-3/4% Vola V. Bunnell - 1/2 of 1%	Phillips Petroleum ALL
2.	T-21S, R-32E Sec. 3: E/2 SE/4	80.00	NM-028705 5-31-67 (2)	U.S.A.: 12-1/2%	Phillips Petroleum Co.	Bryan Bell-Production payment of \$750 per acre out of 5%	Phillips Petroleum ALL
3.	T-21S, R-32E Sec. 14: NW/4, N/2 SE/4	240.00	NM-061261 5-31-69 (2)	U.S.A.: 12-1/2%	Estate of Ralph Lowe, Deceased	None	Estate of Ralph Lowe, Deceased ALL
4.	T-21S, R-32E Sec. 13: N/2, N/2 S/2 Sec. 14: NE/4	640.00	NM-061261-A 5-31-69 (2)	U.S.A.: 12-1/2%	Union Oil of Calif.	Fred Goodman - 1-1/4% Est. of Ralph Lowe - 1-1/4% Vola Horst Bunnell - 2-1/2%	Union Oil of Calif. ALL
5.	T-21S, R-32E Sec. 2: Lots 11, 12, 13, 14	160.00	NM-093840 7-31-70 (2)	U.S.A.: 12-1/2%	Phillips Petroleum Co.	Pubco Pet. Corp. - 12-1/2%	Phillips Petroleum ALL
6.	T-21S, R-33E Sec. 18: NE/4	160.00	NM-0120543 1-31-71	U.S.A.: 12-1/2%	Gulf Oil Corp.	Gerald T. Tresner - 5%	Gulf Oil Corp. ALL

TRACT NO.	DESCRIPTION OF LAND	ACRES	LEASE NO. & EXP. DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDE ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
7.	<u>T-21S, R-32E</u> Sec. 2: Lots 9, 10, 15, 16 Sec. 10: SE/4 Sec. 13: S/2 S/2 Sec. 14: S/2 SE/4 <u>T-21S, R-33E</u> Sec. 18: Lots 1, 2, E/2 NW/4	711.69	NM-0202296 6-30-73	U.S.A.: 12-1/2%	Gulf Oil Corp.	Walter L. Morrison- 5%	Gulf Oil Corp.
8.	<u>T-21S, R-32E</u> Sec. 12: S/2 SE/4	80.00	NM-0239367 3-31-72	U.S.A.: 12-1/2%	Pan American Pet. Corp.	Bertha W. Hendel- 5%	Pan American Pet. Corp. All
9.	<u>T-21S, R-32E</u> Sec. 11: NE/4, SW/4	320.00	NM-0257272 5-31-72	U.S.A.: 12-1/2%	Phillips Petroleum Co.	R. L. Grady- 1-1/4% Amco Oil Corp.- 3-3/4%	Phillips Petroleum All
10.	<u>T-21S, R-32E</u> Sec. 12: W/2	320.00	NM-0257272-A 5-31-72	U.S.A.: 12-1/2%	Gulf Oil Corp.	E. Jeanne Slaydon- 4%	Gulf Oil Corp. All
11.	<u>T-21S, R-32E</u> Sec. 12: W/2 NE/4	80.00	NM-0325223 11-30-72	U.S.A.: 12-1/2%	Union Oil of Calif.	John A. Wyman- 2-1/2% Ted A. Beach- 2-1/2%	Union Oil of Calif. All
12.	<u>T-21S, R-32E</u> Sec. 10: NE/4	160.00	NM-0362177 11-30-73	U.S.A.: 12-1/2%	Superior Oil Co.	None	Superior Oil Co. All
13.	<u>T-21S, R-32E</u> Sec. 3: W/2 SE/4	80.00	NM-0481118 12-31-73	U.S.A.: 12-1/2%	Phillips Petroleum Co.	Curtis R. Inman- 5%	Phillips Petroleum All

TRACT NO.	DESCRIPTION OF LAND	ACRES	LEASE NO. & EXP. DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
14.	T-21S, R-32E Sec. 2: S/2	320.00	NM-0523215 3-31-74	U.S.A.: 12-1/2%	Phillips Petroleum Co.	Elsie G. Gorman- 5%	Phillips Petroleum ALL
15.	T-21S, R-32E Sec. 11: NW/4, SE/4 Sec. 12: E/2 NE/4, N/2 SE/4	480.00	NM-0553706 5-31-74	U.S.A.: 12-1/2%	Phillips Petroleum Co.	Katherine V. Johnson- 5%	Phillips Petroleum ALL
16.	T-21S, R-32E Sec. 24: N/2	320.00	NM-0556868 4-30-75	U.S.A.: 12-1/2%	Phillips Petroleum Co.	Erma Dee Robley- 2-1/4% Helen I. Fehr- 2-1/4% Robert P. Kunkel- 1/2 of 1%	Phillips Petroleum ALL

TOTAL 16 TRACTS FEDERAL LANDS - 4631.69 ACRES, 58.82235% OF UNIT AREA

## STATE OF NEW MEXICO LANDS

TRACT NO.	DESCRIPTION OF LAND	ACRES	LEASE NO. & EXP. DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
17.	T-21S, R-33E Sec. 16: W/2	320.00	OG-4047-1 7-15-68	State: 12-1/2%	Union Oil of Calif.	None	Union Oil of Calif. ALL
18.	T-21S, R-33E Sec. 17: E/2, E/2 NW/4	400.00	OG-4326-1 8-19-68	State: 12-1/2%	Union Oil of Calif.	None	Union Oil of Calif. ALL
19.	T-21S, R-33E Sec. 8: SW/4, S/2 SE/4, NE/4 SE/4, S/2 NE/4	360.00	OG-4642 10-21-68	State: 12-1/2%	Estate of Ralph Lowe, Deceased	None	Estate of Ralph Lowe, Deceased ALL
20.	T-21S, R-33E Sec. 7: Lots 3, 4, E/2 SW/4	151.51	OG-5382-1 4-21-69	State: 12-1/2%	Pan American Pet. Corp.	M. W. Merritt- 3/8 of 1/16 of 8/8 John K. Funk- 5/8 of 1/16 of 8/8	Pan American Pet. Corp. ALL
21.	T-21S, R-33E Sec. 9: W/2 SW/4, S/2 NW/4	160.00	K-108 1-19-70	State: 12-1/2%	Union Oil of Calif.	None	Union Oil of Calif. ALL
22.	T-21S, R-33E Sec. 7: E/2	320.00	K-188 2-16-70	State: 12-1/2%	Union Producing Co.	None	Union Producing Co. ALL
23.	T-21S, R-33E Sec. 18: Lots 3, 4, E/2 SW/4	151.87	K-786 5-20-70	State: 12-1/2%	Union Oil of Calif.	None	Union Oil of Calif. ALL

TRACT NO.	DESCRIPTION OF LAND	ACRES	LEASE NO. & EXP. DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDE ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
24.	T-21S, R-33E Sec. 6: Lot 18, SE/4 SW/4 Sec. 7: Lots 1, 2, E/2 NW/4	226.92	K-868-1 10-18-70	State: 12-1/2%	Sinclair Oil & Gas Co.	None	Sinclair Oil & Gas Co.
25.	T-21S, R-33E Sec. 9: E/2 SW/4	80.00	K-4485 10-20-74	State: 12-1/2%	Atlantic Richfield	None	Atlantic Richfield
26.	T-21S, R-33E Sec. 17: SW/4, W/2 NW/4 Sec. 18: SE/4	400.00	K-5003-2 5-18-75	State: 12-1/2%	Phillips Petroleum Co.	320 Minerals Ltd.-Production payment of \$750 per acre out of 5%	Phillips Petroleum
27.	T-21S, R-33E Sec. 8: N/2 NE/4, NW/4, NW/4, SE/4 Sec. 9: N/2 NW/4	360.00	K-5642 1-18-76	State: 12-1/2%	Phillips Petroleum Co.	None	Phillips Petroleum
28.	T-21S, R-33E Sec. 19: Lots 1, 2, E/2 NW/4, NE/4	312.04	K-6043 5-17-76	State: 12-1/2%	Phillips Petroleum Co.	None	Phillips Petroleum
<u>TOTAL 12 TRACTS, STATE OF NEW MEXICO LANDS - 3,242.34 ACRES, 41.17765% OF UNIT AREA</u>							
<u>RECAPITULATION</u>							
		FEDERAL LANDS	4,631.69 Acres		58.82235% Unit Area		
		STATE LANDS	3,242.34 Acres		41.17765% Unit Area		
		TOTAL LANDS	7,874.03 Acres		100.00000% Unit Area		



EXHIBIT "A"

IN REPLY REFER TO:

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
GEOLOGICAL SURVEY  
WASHINGTON 25, D. C.

RECEIVED  
FEB 8 1967

LAND SECTION  
PHILLIPS PETROLEUM CO.  
MIDLAND, TEXAS

JAN 31 1967

Case 3560

Phillips Petroleum Company  
P. O. Box 791  
Midland, Texas 79701

Attention: Mr. Fred Forward

Gentlemen:

Your undated application filed on December 19 with the Oil and Gas Supervisor, Roswell, New Mexico, requests the designation of the Hat Mesa unit area embracing 7,874.03 acres, more or less, Lea County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act, as amended.

Pursuant to unit plan regulations of December 22, 1950, 30 CFR 226.3 (1961 reprint), the land requested, as outlined on your plat marked "Exhibit A, Hat Mesa Unit Area, Lea County, New Mexico," is hereby designated as a logical unit area.

The unit agreement submitted for the area designated should provide for the drilling of the initial exploratory well to test the Devonian formations, or to a depth of 15,500 feet. The 1961 reprint of the standard form of unit agreement should be used, modified only by the following changes as proposed by your application:

1. Change item 6(b), line 5, page 7 of the 1961 reprint to read:  
"(b) the selection shall have been filed with the Supervisor. If no successor unit operator is selected and qualified as herein provided, the Director at his election may declare this unit agreement terminated.
2. Replace the "Fair Employment" section of the 1961 reprint with the following:

"Nondiscrimination: In connection with the performance of work under this unit agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference in this agreement."

3. Insertion of the appropriate language required by the State of New Mexico.

4. Addition of the proposed language for the protection of the potash deposits as a separate section.

5. The addition of a separate section entitled "Conflict of Supervision" is permissible, provided that such section is conformed to the language proposed by your application.

In the absence of any other type of land requiring special provisions or any objection not now apparent, a duly executed agreement identical to the 1961 reprint, modified only as outlined above, will be approved if submitted in approvable status within a reasonable time. However, the right is reserved to deny approval of any executed agreement which, in our opinion, does not have full commitment of sufficient lands to afford effective control of unit operations.

When the executed agreement is transmitted to the Supervisor for approval, include the latest status of all acreage. The format of the sample exhibits attached to the 1961 reprint of the standard form should be followed closely in the preparation of Exhibits A and B.

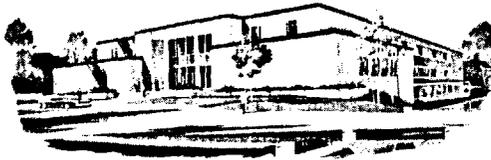
As this unit area contains State of New Mexico lands, we are sending a copy of this letter to the Commissioner of Public Lands at Santa Fe. Please contact the State of New Mexico before soliciting joinders, regardless of prior contacts with or clearances from the State.

Sincerely yours,



Acting Director

State of New Mexico



Commissioner of Public Lands

GUYTON B. HAYS  
COMMISSIONER



January 25, 1967

P. O. BOX 1148  
SANTA FE, NEW MEXICO

RECEIVED  
JAN 27 1967

PHILLIPS PETROLEUM COMPANY  
MIDLAND DISTRICT  
EXPLORATION DIVISION

Phillips Petroleum Company  
P. O. Box 791  
Midland, Texas, 79701

Re: Hat Mesa Unit  
Lea County, New Mexico

*Case 3560*

ATTENTION: Mr. Fred Forward

Gentlemen:

Pursuant to your letter dated January 20, 1967, and attachments thereto including the proposed form of agreement for the Hat Mesa Unit Area.

I find this agreement follows the required form for a State and Federal Exploratory Unit and includes all the requirements of the Commissioner of Public Lands, therefore, we approve the proposed agreement for the Hat Mesa Unit as to form and content.

Your Mr. Wolfenberger and Mr. Tally met with members of this office and with the Commissioner in July of 1966, and they discussed with us the Hat Mesa Unit Area and the structure map. The Commissioner at that time approved the Unit Project.

If we can be of further assistance please feel free to call us.

Very truly yours,  
COMMISSIONER OF PUBLIC LANDS  
BY: *Ted Bilberry*  
Ted Bilberry, Director  
Oil and Gas Department

GBH/MMR/s

MAIN OFFICE  
'67 MAR 29 PM 3 40

BEFORE THE  
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION  
OF PHILLIPS PETROLEUM COMPANY FOR  
APPROVAL OF HAT MESA UNIT AGREE-  
MENT, LEA COUNTY, NEW MEXICO

A P P L I C A T I O N

Comes now the undersigned, PHILLIPS PETROLEUM COMPANY, with offices at Midland, Texas, and files herewith one copy of the proposed Unit Agreement for the development and operation of the Hat Mesa 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 states:

1. That the proposed unit area covered by said agreement embraces 7,874.03 acres of land, more or less, more particularly described as follows:

Township 21 South, Range 32 East  
N.M.P.M.

- Section 1: Lots 11, 12, 13, 14 and S/2
- Section 2: Lots 9, 10, 11, 12, 13, 14, 15, 16 and S/2
- Section 3: SE/4
- Section 10: E/2
- Section 11: All
- Section 12: All
- Section 13: All
- Section 14: N/2 and SE/4
- Section 24: N/2

Township 21 South, Range 33 East  
N.M.P.M.

- Section 6: Lot 18, and SE/4 SW/4
- Section 7: Lots 1, 2, 3, 4, E/2 W/2, E/2
- Section 8: All
- Section 9: W/2
- Section 16: W/2
- Section 17: All
- Section 18: Lots 1, 2, 3, 4, E/2 W/2, E/2
- Section 19: Lots 1, 2, E/2 NW/4, NE/4

Containing 7874.03 acres, more or less

2. That of the lands embraced within the proposed unit area, 4,631.69 acres or 58.82% are Federal lands, 3,242.34 acres or 41.18% are lands of the State of New Mexico, and no privately owned lands are within the proposed unit. That said area has heretofore, on January 31, 1967, been designated by the Acting Director of the United States Geological Survey as an area suitable and proper for unitization, a copy of said designation being attached hereto, made a part hereof, and for purposes of identification marked Exhibit "A". That on January 25, 1967, said Unit Agreement was approved as to form and content, following verbal unit project approval by the Commissioner of Public Lands in July 1966, a copy of said approval being attached hereto, made a part hereof, and for purposes of identification marked Exhibit "B".

3. That applicant is informed and believes, and upon such information and belief states, that the proposed unit area contains all or substantially all of the geological feature involved, and that 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 unitized substances.

4. That Phillips Petroleum Company is designated as the Unit Operator in said Unit Agreement, and as such is given the 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 drilling of an initial test well to a depth sufficient to test the Devonian formation, unless unitized substances shall be discovered in paying quantities at a lesser depth, or to such depth as further drilling would not be warranted, but in

any event, to a depth not to exceed 15,500 feet.

5. That said Unit Agreement is substantially the same form as unit agreements heretofore approved by the New Mexico Oil Conservation Commission, and applicant believes 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 Unit Agreement, to the end that the maximum recovery will be obtained of unitized substances, and that said Unit Agreement is in the interest of conservation and prevention of waste as contemplated by the New Mexico Oil Conservation Commission Statutes and regulations.

6. That the N/2 Section 24, T-21S, R-32E and the N/2 Section 19, SE/4 SE/4 Sec. 18, S/2 S/2 Sec. 17 all in T-21S, R-33E, within the proposed unit outline is subject to order No. R-111-A. However, it is believed that no active potash mining is being carried on in or near the proposed unit area, and said Unit Agreement includes a Potash Protection Clause.

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

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner on the matter of approval of said Unit Agreement, and that upon said hearing, the Hat Mesa Unit Agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and the prevention of waste.

Respectfully submitted,

PHILLIPS PETROLEUM COMPANY

BY Jason W. Kellahin  
KELLAHIN & FOX  
Post Office Box 1769  
Santa Fe, New Mexico

Attorneys for Applicant