



1           2. UNIT AREA. The area specified on the map attached hereto           1  
2 marked Exhibit "A" is hereby designated and recognized as constituting the           2  
3 unit area, containing 7,682.36 acres, more or less.           3

4           Exhibit "A" shows, in addition to the boundary of the unit area, the           4  
5 boundaries and identity of tracts and leases in said area to the extent known to           5  
6 the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the           6  
7 extent known to the Unit Operator the acreage, percentage, and kind of ownership           7  
8 of oil and gas interests in all land in the unit area. However, nothing herein           8  
9 or in said schedule or map shall be construed as a representation by any party           9  
10 hereto as to the ownership of any interest other than such interest or interests           10  
11 as are shown in said map or schedule as owned by such party. Exhibits "A" and           11  
12 "B" shall be revised by the Unit Operator whenever changes in the unit area           12  
13 render such revision necessary, or when requested by the Oil and Gas Supervisor,           13  
14 hereinafter referred to as "Supervisor", or when requested by the Commissioner           14  
15 of Public Lands of The State of New Mexico, hereinafter referred to as "Land           15  
16 Commissioner", and not less than five (5) copies of the revised exhibits shall           16  
17 be filed with the Supervisor, and two (2) copies thereof shall be filed with The           17  
18 Land Commissioner and one (1) copy with The New Mexico Oil Conservation Commis-           18  
19 sion, hereinafter referred to as "Conservation Commission."           19

20           The above-described unit area shall when practicable be expanded to           20  
21 include therein any additional lands or shall be contracted to exclude lands           21  
22 whenever such expansion or contraction is deemed to be necessary or advisable           22  
23 to conform with the purposes of this agreement. Such expansion or contraction           23  
24 shall be effected in the following manner:           24

25           (a) Unit Operator, on its own motion or on demand of the Director of           25  
26 the Geological Survey, hereinafter referred to as "Director", or on demand of The           26  
27 Land Commissioner, but only after preliminary concurrence by the Director and The           27  
28 Land Commissioner, shall prepare a notice of proposed expansion or contraction           28  
29 describing the contemplated changes in the boundaries of the unit area, the reas-           29  
30 ons therefor, and the proposed effective date thereof, preferably the first day           30  
31 of a month subsequent to the date of notice.           31

32           (b) Said notice shall be delivered to the Supervisor, the Land Com-           32  
33 missioner and the Conservation Commission and copies thereof mailed to the last           33  
34 known address of each working interest owner, lessee, and lessor whose interests           34  
35 are affected, advising that 30 days will be allowed for submission to the Unit           35  
36 Operator of any objections.           36

37           (c) Upon expiration of the 30-day period provided in the preceding           37  
38 item (b) hereof, Unit Operator shall file with the Supervisor, Land Commissioner           38  
39 and Conservation Commission evidence of mailing of the notice of expansion or           39  
40 contraction and a copy of any objections thereto which have been filed with the           40  
41 Unit Operator, together with an application in sufficient number, for approval of           41  
42 such expansion or contraction and with appropriate joinders.           42

43           (d) After due consideration of all pertinent information, the expan-           43  
44 sion or contraction shall, upon approval by the Supervisor, the Land Commissioner           44  
45 and the Conservation Commission, become effective as of the date prescribed in the           45  
46 notice thereof.           46

47           (e) All legal subdivisions of lands (i.e., 40 acres by Government           47  
48 survey or its nearest lot or tract equivalent; in instances of irregular surveys           48  
49 unusually large lots or tracts shall be considered in multiples of 40 acres or           49  
50 the nearest aliquot equivalent thereof), no parts of which are entitled to be           50  
51 in a participating area on or before the fifth anniversary of the effective date           51  
52 of the first initial participating area established under this unit agreement,           52  
53 shall be eliminated automatically from this agreement, effective as of said           53  
54 fifth anniversary, and such lands shall no longer be a part of the unit area and           54  
55 shall no longer be subject to this agreement, unless diligent drilling operations           55  
56 are in progress on unitized lands not entitled to participation on said fifth           56  
57 anniversary, in which event all such lands shall remain subject hereto for so           57  
58 long as such drilling operations are continued diligently, with not more than 90           58  
59 days' time elapsing between the completion of one such well and the commencement           59  
60 of the next such well. All legal subdivisions of lands not entitled to be in a           60

1 participating area within 10 years after the effective date of the first 1  
2 initial participating area approved under this agreement shall be automatically 2  
3 eliminated from this agreement as of said tenth anniversary. All lands proved 3  
4 productive by diligent drilling operations after the aforesaid 5-year period 4  
5 shall become participating in the same manner as during said 5-year period. 5  
6 However, when such diligent drilling operations cease, all nonparticipating 6  
7 lands shall be automatically eliminated effective as of the 91st day thereafter. 7  
8 The Unit Operator shall within 90 days after the effective date of any elimina- 8  
9 tion hereunder, describe the area so eliminated to the satisfaction of the 9  
10 Supervisor and the Land Commissioner and promptly notify all parties in interest. 10

11 If conditions warrant extension of the 10-year period specified in 11  
12 this subsection 2(e), a single extension of not to exceed 2 years may be accom- 12  
13 plished by consent of the owners of 90% of the working interests in the current 13  
14 nonparticipating unitized lands and the owners of 60% of the basic royalty 14  
15 interests (exclusive of the basic royalty interests of the United States) in 15  
16 nonparticipating unitized lands with approval of the Director and the Land Com- 16  
17 missioner, provided such extension application is submitted to the Director and 17  
18 the Land Commissioner not later than 60 days prior to the expiration of said 18  
19 10-year period. 19

20 Any expansion of the unit area pursuant to this section which embraces 20  
21 lands theretofore eliminated pursuant to this subsection 2(e) shall not be con- 21  
22 sidered automatic commitment or recommitment of such lands. 22

23 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this 23  
24 agreement shall constitute land referred to herein as "unitized land" or "land 24  
25 subject to this agreement." All oil and gas in any and all formations of the 25  
26 unitized land are unitized under the terms of this agreement and herein are 26  
27 called "unitized substances." 27

28 4. UNIT OPERATOR. E. B. White, Jr., 28  
29 29  
30 is hereby designated as Unit Operator and by signature hereto as Unit Operator 30  
31 agrees and consents to accept the duties and obligations of Unit Operator for 31  
32 the discovery, development, and production of unitized substances as herein pro- 32  
33 vided. Whenever reference is made herein to the Unit Operator, such reference 33  
34 means the Unit Operator acting in that capacity and not as an owner of interest 34  
35 in unitized substances, and the term "working interest owner" when used herein 35  
36 shall include or refer to Unit Operator as the owner of a working interest when 36  
37 such an interest is owned by it. 37

38 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall 38  
39 have the right to resign at any time prior to the establishment of a participat- 39  
40 ing area or areas hereunder, but such resignation shall not become effective so 40  
41 as to release Unit Operator from the duties and obligations of Unit Operator 41  
42 and terminate Unit Operator's rights as such for a period of six months after 42  
43 notice of intention to resign has been served by Unit Operator on all working 43  
44 interest owners, the Supervisor, the Land Commissioner and Conservation Commis- 44  
45 sion, and until all wells then drilled hereunder are placed in a satisfactory 45  
46 condition for suspension or abandonment whichever is required by the Supervisor 46  
47 as to Federal lands and by the Conservation Commission as to State lands unless 47  
48 a new Unit Operator shall have been selected and approved and shall have taken 48  
49 over and assumed the duties and obligations of Unit Operator prior to the 49  
50 expiration of said period. 50

51 Unit Operator shall have the right to resign in like manner and sub- 51  
52 ject to like limitations as above provided at any time a participating area 52  
53 established hereunder is in existence, but, in all instances of resignation or 53  
54 removal, until a successor Unit Operator is selected and approved as hereinafter 54  
55 provided, the working interest owners shall be jointly responsible for perform- 55  
56 ance of the duties of Unit Operator, and shall not later than 30 days before 56  
57 such resignation or removal becomes effective appoint a common agent to represent 57  
58 them in any action to be taken hereunder. 58

1           The resignation of Unit Operator shall not release Unit Operator           1  
2 from any liability for any default by it hereunder occurring prior to the effect-   2  
3 ive date of its resignation.   3

4           The Unit Operator may, upon default or failure in the performance of           4  
5 its duties or obligations hereunder, be subject to removal by the same percent-   5  
6 age vote of the owners of working interests as herein provided for the selection   6  
7 of a new Unit Operator. Such removal shall be effective upon notice thereof to   7  
8 the Supervisor and the Land Commissioner.   8

9           The resignation or removal of Unit Operator under this agreement shall   9  
10 not terminate its right, title, or interest as the owner of a working interest   10  
11 or other interest in unitized substances, but upon the resignation or removal   11  
12 of Unit Operator becoming effective, such Unit Operator shall deliver possession   12  
13 of all wells, equipment, materials, and appurtenances used in conducting the   13  
14 unit operations to the new duly qualified successor Unit Operator or to the   14  
15 common agent, if no such new Unit Operator is elected, to be used for the purpose   15  
16 of conducting unit operations hereunder. Nothing herein shall be construed as   16  
17 authorizing removal of any material, equipment and appurtenances needed for the   17  
18 preservation of any wells.   18

19           6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender   19  
20 his or its resignation as Unit Operator or shall be removed as hereinabove pro-   20  
21 vided, or a change of Unit Operator is negotiated by working interest owners, the   21  
22 owners of the working interests in the participating area or areas according to   22  
23 their respective acreage interests in such participating area or areas, or, until   23  
24 a participating area shall have been established, the owners of the working int-   24  
25 erests according to their respective acreage interests in all unitized land,   25  
26 shall by majority vote select a successor Unit Operator: Provided, That, if a   26  
27 majority but less than 75 per cent of the working interests qualified to vote   27  
28 are owned by one party to this agreement, a concurring vote of one or more addi-   28  
29 tional working interest owners shall be required to select a new operator. Such   29  
30 selection shall not become effective until:   30

31           (a) a Unit Operator so selected shall accept in writing the duties           31  
32 and responsibilities of Unit Operator, and   32

33           (b) the selection shall have been approved by the Supervisor and the   33  
34 Land Commissioner.   34

35           If no successor Unit Operator is selected and qualified as herein pro-   35  
36 vided, the Director and the Land Commissioner at their election may declare this   36  
37 unit agreement terminated.   37

38           7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit   38  
39 Operator is not the sole owner of working interests, costs and expenses incurred   39  
40 by Unit Operator in conducting unit operations hereunder shall be paid and appor-   40  
41 tioned among and borne by the owners of working interests, all in accordance with   41  
42 the agreement or agreements entered into by and between the Unit Operator and   42  
43 the owners of working interests, whether one or more, separately or collectively.   43  
44 Any agreement or agreements entered into between the working interest owners and   44  
45 the Unit Operator as provided in this section, whether one or more, are herein   45  
46 referred to as the "unit operating agreement." Such unit operating agreement   46  
47 shall also provide the manner in which the working interest owners shall be en-   47  
48 titled to receive their respective proportionate and allocated share of the   48  
49 benefits accruing hereto in conformity with their underlying operating agreements,   49  
50 leases, or other independent contracts, and such other rights and obligations as   50  
51 between Unit Operator and the working interest owners as may be agreed upon by   51  
52 Unit Operator and the working interest owners; however, no such unit operating   52  
53 agreement shall be deemed either to modify any of the terms and conditions of   53  
54 this unit agreement or to relieve the Unit Operator of any right or obligation   54  
55 established under this unit agreement, and in case of any inconsistency or con-   55  
56 flict between this unit agreement and the unit operating agreement, this unit   56  
57 agreement shall govern. Three true copies of any unit operating agreement exe-   57  
58 cuted pursuant to this section should be filed with the Supervisor and one (1)   58  
59 true copy with the Land Commissioner, prior to approval of this unit agreement.   59

1 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise 1  
2 specifically provided herein, the exclusive right, privilege, and duty of exercis- 2  
3 ing any and all rights of the parties hereto which are necessary or convenient 3  
4 for prospecting for, producing, storing, allocating, and distributing the unitized 4  
5 substances are hereby delegated to and shall be exercised by the Unit Operator as 5  
6 herein provided. Acceptable evidence of title to said rights shall be deposited 6  
7 with said Unit Operator and, together with this agreement, shall constitute and 7  
8 define the rights, privileges, and obligations of Unit Operator. Nothing herein, 8  
9 however, shall be construed to transfer title to any land or to any lease or 9  
10 operating agreement, it being understood that under this agreement, the Unit 10  
11 Operator, in its capacity as Unit Operator, shall exercise the rights of possess- 11  
12 ion and use vested in the parties hereto only for the purposes herein specified. 12

13 9. DRILLING TO DISCOVERY. Within 6 months after the effective date 13  
14 hereof, the Unit Operator shall begin to drill an adequate test well at a 14  
15 location approved by the Supervisor if on Federal land or by the Land Commiss- 15  
16 ioner if on State land, or by the Conservation Commission if on privately owned 16  
17 land, unless on such effective date a well is being drilled conformably with the 17  
18 terms hereof, and thereafter continue such drilling diligently until the \_\_\_\_\_ 18  
19 Upper Mississippian Barnett Shale 19  
20 formation has been tested or until at a lesser depth unitized substances shall 20  
21 be discovered which can be produced in paying quantities (to-wit: quantities 21  
22 sufficient to repay the costs of drilling, completing, and producing operations, 22  
23 with a reasonable profit) or the Unit Operator shall at any time establish to 23  
24 the satisfaction of the Supervisor if on Federal land, of the Land Commissioner 24  
25 if on State land, or of the Conservation Commission if on privately owned land, 25  
26 that further drilling of said well would be unwarranted or impracticable, pro- 26  
27 vided, however, that Unit Operator shall not in any event be required to drill 27  
28 said well to a depth in excess of 15,000 feet. Until the discovery of 28  
29 a deposit of unitized substances capable of being produced in paying quantities, 29  
30 the Unit Operator shall continue drilling one well at a time, allowing not more 30  
31 than 6 months between the completion of one well and the beginning of the next 31  
32 well, until a well capable of producing unitized substances in paying quantities 32  
33 is completed to the satisfaction of said Supervisor if it be on Federal land, or 33  
34 of the Land Commissioner if on State land, or of the Conservation Commission if 34  
35 on privately owned land, or until it is reasonably proved that the unitized land 35  
36 is incapable of producing unitized substances in paying quantities in the for- 36  
37 mations drilled hereunder. Nothing in this section shall be deemed to limit the 37  
38 right of the Unit Operator to resign as provided in Section 5 hereof, or as 38  
39 requiring Unit Operator to commence or continue any drilling during the period 39  
40 pending such resignation becoming effective in order to comply with the require- 40  
41 ments of this section. The Supervisor and Land Commissioner may modify the 41  
42 drilling requirements of this section by granting reasonable extensions of time 42  
43 when, in their opinion, such action is warranted. 43

44 Upon failure to commence any well provided for in this section within 44  
45 the time allowed, including any extension of time granted by the Supervisor and 45  
46 the Land Commissioner, this agreement will automatically terminate; upon failure 46  
47 to continue drilling diligently any well commenced hereunder, the Supervisor may, 47  
48 after 15-days notice to the Unit Operator, declare this unit agreement terminated. 48

49 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after 49  
50 completion of a well capable of producing unitized substances in paying quanti- 50  
51 ties, the Unit Operator shall submit for the approval of the Supervisor and the 51  
52 Land Commissioner an acceptable plan of development and operation for the unitized 52  
53 land which, when approved by the Supervisor and Land Commissioner, shall consti- 53  
54 tute the further drilling and operating obligations of the Unit Operator under 54  
55 this agreement for the period specified therein. Thereafter, from time to time 55  
56 before the expiration of any existing plan, the Unit Operator shall submit for 56  
57 the approval of the Supervisor and Land Commissioner a plan for an additional 57  
58 specified period for the development and operation of the unitized land. 58

59 Any plan submitted pursuant to this section shall provide for the 59  
60 exploration of the unitized area and for the diligent drilling necessary for 60  
61 determination of the area or areas thereof capable of producing unitized sub- 61  
62 stances in paying quantities in each and every productive formation and shall be 62

1 as complete and adequate as the Supervisor and the Land Commissioner may deter- 1  
2 mine to be necessary for timely development and proper conservation of the oil 2  
3 and gas resources of the unitized area and shall: 3

4 (a) specify the number and locations of any wells to be 4  
5 drilled and the proposed order and time for such drilling; 5

6 (b) to the extent practicable specify the operating practices 6  
7 regarded as necessary and advisable for proper conservation 7  
8 of natural resources. 8

9 Separate plans may be submitted for separate productive zones, subject to the 9  
10 approval of the Supervisor and the Land Commissioner. 10

11 Plans shall be modified or supplemented when necessary to meet changed 11  
12 conditions or to protect the interests of all parties to this agreement. Reason- 12  
13 able diligence shall be exercised in complying with the obligations of the 13  
14 approved plan of development. The Supervisor and Land Commissioner are author- 14  
15 ized to grant a reasonable extension of the 6-month period herein prescribed for 15  
16 submission of an initial plan of development where such action is justified be- 16  
17 cause of unusual conditions or circumstances. After completion hereunder of a 17  
18 well capable of producing any unitized substance in paying quantities, no further 18  
19 wells, except such as may be necessary to afford protection against operations 19  
20 not under this agreement and such as may be specifically approved by the Super- 20  
21 visor and Land Commissioner, shall be drilled except in accordance with a plan 21  
22 of development approved as herein provided. 22

23 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable 23  
24 of producing unitized substances in paying quantities or as soon thereafter as 24  
25 required by the Supervisor and Land Commissioner, the Unit Operator shall submit 25  
26 for approval by the Supervisor and the Land Commissioner, a schedule based on 26  
27 subdivisions of the public-land survey or aliquot parts thereof, of all land 27  
28 then regarded as reasonably proved to be productive in paying quantities; all 28  
29 lands in said schedule on approval of the Supervisor and the Land Commissioner 29  
30 to constitute a participating area, effective as of the date of completion of 30  
31 such well or the effective date of this unit agreement, whichever is later. 31  
32 The acreage of both Federal and non-Federal lands shall be based upon appropriate 32  
33 computations from the courses and distances shown on the last approved public- 33  
34 land survey as of the effective date of each initial participating area. Said 34  
35 schedule shall also set forth the percentage of unitized substances to be allo- 35  
36 cated as herein provided to each tract in the participating area so established, 36  
37 and shall govern the allocation of production commencing with the effective date 37  
38 of the participating area. A separate participating area shall be established 38  
39 for each separate pool or deposit of unitized substances or for any group thereof 39  
40 which is produced as a single pool or zone, and any two or more participating 40  
41 areas so established may be combined into one, on approval of the Supervisor and 41  
42 the Land Commissioner. When production from two or more participating areas, so 42  
43 established, is subsequently found to be from a common pool or deposit said 43  
44 participating areas shall be combined into one effective as of such appropriate 44  
45 date as may be approved or prescribed by the Supervisor and the Land Commis- 45  
46 sioner. The participating area or areas so established shall be revised from 46  
47 time to time, subject to like approval, to include additional land then regarded 47  
48 as reasonably proved to be productive in paying quantities or necessary for unit 48  
49 operations, or to exclude land then regarded as reasonably proved not to be pro- 49  
50 ductive in paying quantities and the schedule of allocation percentages shall be 50  
51 revised accordingly. The effective date of any revision shall be the first of the 51  
52 month in which is obtained the knowledge or information on which such revision is 52  
53 predicated, provided, however, that a more appropriate effective date may be used 53  
54 if justified by the Unit Operator and approved by the Supervisor and the Land 54  
55 Commissioner. No land shall be excluded from a participating area on account of 55  
56 depletion of the unitized substances, except that any participating area estab- 56  
57 lished under the provisions of this unit agreement shall terminate automatically 57  
58 whenever all completions in the formation on which the participating area is 58  
59 based are abandoned. 59

60 It is the intent of this section that a participating area shall repre- 60  
61 sent the area known or reasonably estimated to be productive in paying quantities; 61

1 but, regardless of any revision of the participating area, nothing herein 1  
2 contained shall be construed as requiring any retroactive adjustment for pro- 2  
3 duction obtained prior to the effective date of the revision of the participating 3  
4 area. 4

5 In the absence of agreement at any time between the Unit Operator and 5  
6 the Supervisor and the Land Commissioner as to the proper definition or redefini- 6  
7 tion of a participating area, or until a participating area has, or areas have, 7  
8 been established as provided herein, the portion of all payments affected thereby 8  
9 shall be impounded in a manner mutually acceptable to the owners of working int- 9  
10 erests and the Supervisor and the Land Commissioner. Royalties due the United 10  
11 States and the State of New Mexico shall be determined by the Supervisor and the 11  
12 Land Commissioner, respectively, and the amounts thereof shall be deposited, as 12  
13 directed by the Supervisor and the Land Commissioner to be held as unearned 13  
14 monies until a participating area is finally approved and then applied as earned 14  
15 or returned in accordance with a determination of the sums due as Federal royalty 15  
16 and State of New Mexico royalty, respectively, on the basis of such approved 16  
17 participating area. 17

18 Whenever it is determined subject to the approval of the Supervisor, 18  
19 as to wells drilled on Federal land and of the Land Commissioner as to wells 19  
20 drilled on State land and of the Conservation Commission as to wells drilled on 20  
21 privately owned land, that a well drilled under this agreement is not capable of 21  
22 production in paying quantities and inclusion of the land on which it is situated 22  
23 in a participating area is unwarranted, production from such well shall, for the 23  
24 purpose of settlement among all parties other than working interest owners, be 24  
25 allocated to the land on which the well is located unless such land is already 25  
26 within the participating area established for the pool or deposit from which such 26  
27 production is obtained. Settlement for working interest benefits from such a 27  
28 well shall be made as provided in the unit operating agreement. 28

29 12. ALLOCATION OF PRODUCTION. All unitized substances produced from 29  
30 each participating area established under this agreement, except any part thereof 30  
31 used in conformity with good operating practices within the unitized area for 31  
32 drilling, operating, camp and other production or development purposes, for 32  
33 repressuring or recycling in accordance with a plan of development approved by 33  
34 the Supervisor, the Land Commissioner and the Conservation Commission, or unavoid- 34  
35 ably lost, shall be deemed to be produced equally on an acreage basis from the 35  
36 several tracts of unitized land of the participating area established for such 36  
37 production and, for the purpose of determining any benefits accruing under this 37  
38 agreement, each such tract of unitized land shall have allocated to it such per- 38  
39 centage of said production as the number of acres of such tract included in said 39  
40 participating area bears to the total acres of unitized land in said participating 40  
41 area, except that allocation of production hereunder for purposes other than for 41  
42 settlement of the royalty, overriding royalty, or payment out of production 42  
43 obligations of the respective working interest owners shall be on the basis pre- 43  
44 scribed in the unit operating agreement, whether in conformity with the basis of 44  
45 allocation herein set forth or otherwise. It is hereby agreed that production 45  
46 of unitized substances from a participating area shall be allocated as provided 46  
47 herein regardless of whether any wells are drilled on any particular part or 47  
48 tract of said participating area. If any gas produced from one participating 48  
49 area is used for repressuring or recycling purposes in another participating 49  
50 area, the first gas withdrawn from such last-mentioned participating area for 50  
51 sale during the life of this agreement shall be considered to be the gas so 51  
52 transferred until an amount equal to that transferred shall be so produced for 52  
53 sale and such gas shall be allocated to the participating area from which 53  
54 initially produced as such area was last defined at the time of such final pro- 54  
55 duction. 55

56 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any 56  
57 party hereto owning or controlling the working interest in any unitized land 57  
58 having thereon a regular well location may with the approval of the Supervisor 58  
59 as to Federal land, the Land Commissioner as to State land, and the Conservation 59  
60 Commission as to privately owned land, at such party's sole risk, costs, and 60  
61 expense, drill a well to test any formation for which a participating area has 61  
62 not been established or to test any formation for which a participating area has 62

1 been established if such location is not within said participating area, 1  
2 unless within 90 days of receipt of notice from said party of his intention to 2  
3 drill the well the Unit Operator elects and commences to drill such a well in 3  
4 like manner as other wells are drilled by the Unit Operator under this agreement. 4

5 If any well drilled as aforesaid by a working interest owner results 5  
6 in production such that the land upon which it is situated may properly be in- 6  
7 cluded in a participating area, such participating area shall be established or 7  
8 enlarged as provided in this agreement and the well shall thereafter be operated 8  
9 by the Unit Operator in accordance with the terms of this agreement and the unit 9  
10 operating agreement. 10

11 If any well drilled as aforesaid by a working interest owner obtains 11  
12 production in quantities insufficient to justify the inclusion of the land upon 12  
13 which such well is situated in a participating area, such well may be operated 13  
14 and produced by the party drilling the same subject to the conservation require- 14  
15 ments of this agreement. The royalties in amount or value of production from 15  
16 any such well shall be paid as specified in the underlying lease and agreements 16  
17 affected. 17

18 14. ROYALTY SETTLEMENT. The United States, the State of New Mexico, 18  
19 and any royalty owner who, is entitled to take in kind a share of the substances 19  
20 now unitized hereunder shall hereafter be entitled to the right to take in kind 20  
21 its share of the unitized substances, and Unit Operator, or the working interest 21  
22 owner in case of the operation of a well by a working interest owner as herein 22  
23 provided for in special cases, shall make deliveries of such royalty share taken 23  
24 in kind in conformity with the applicable contracts, laws, and regulations. Set- 24  
25 tlement for royalty interest not taken in kind shall be made by working interest 25  
26 owners responsible therefor under existing contracts, laws and regulations, or 26  
27 by the Unit Operator on or before the last day of each month for unitized sub- 27  
28 stances produced during the preceding calendar month; provided, however, that 28  
29 nothing herein contained shall operate to relieve the lessees of any land from 29  
30 their respective lease obligations for the payment of any royalties due under 30  
31 their leases. 31

32 If gas obtained from lands not subject to this agreement is introduced 32  
33 into any participating area hereunder, for use in repressuring, stimulation of 33  
34 production, or increasing ultimate recovery, in conformity with a plan of opera- 34  
35 tions approved by the Supervisor, the Land Commissioner and the Conservation 35  
36 Commission, a like amount of gas, after settlement as herein provided for any 36  
37 gas transferred from any other participating area and with appropriate deduction 37  
38 for loss from any cause, may be withdrawn from the formation into which the gas 38  
39 is introduced, royalty free as to dry gas, but not as to any products which may 39  
40 be extracted therefrom; provided that such withdrawal shall be at such time as 40  
41 may be provided in the approved plan of operations or as may otherwise be con- 41  
42 sented to by the Supervisor, the Land Commissioner and the Conservation Commis- 42  
43 sion, as conforming to good petroleum engineering practice; and provided further, 43  
44 that such right of withdrawal shall terminate on the termination of this unit 44  
45 agreement. 45

46 Royalty due the United States shall be computed as provided in the 46  
47 operating regulations and paid in value or delivered in kind as to all unitized 47  
48 substances on the basis of the amounts thereof allocated to unitized Federal 48  
49 land as provided herein at the rates specified in the respective Federal leases, 49  
50 or at such lower rate or rates as may be authorized by law or regulation; pro- 50  
51 vided, that for leases on which the royalty rate depends on the daily average 51  
52 production per well, said average production shall be determined in accordance 52  
53 with the operating regulations as though each participating area were a single 53  
54 consolidated lease. 54

55 Royalty due the State of New Mexico shall be computed and paid on the 55  
56 basis of the amounts allocated to unitized State land as provided herein at the 56  
57 rate specified in the State oil and gas lease. 57

58 Royalty due on account of privately owned lands shall be computed and 58  
59 paid on the basis of all unitized substances allocated to such lands. 59

1           15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases           1  
2 committed hereto shall be paid by working interest owners responsible therefor           2  
3 under existing contracts, laws, and regulations, provided that nothing herein           3  
4 contained shall operate to relieve the lessees of any land from their respective           4  
5 lease obligations for the payment of any rental or minimum royalty due under           5  
6 their leases. Rental or minimum royalty for lands of the Unites States subject           6  
7 to this agreement shall be paid at the rate specified in the respective leases           7  
8 from the United States unless such rental or minimum royalty is waived, suspended,           8  
9 or reduced by law or by approval of the Secretary of his duly authorized repre-           9  
10 sentative.           10

11           Rentals on State of New Mexico lands subject to this agreement shall be           11  
12 paid at the rates specified in the respective leases.           12

13           With respect to any lease on non-Federal land containing provisions           13  
14 which would terminate such lease unless drilling operations are commenced upon           14  
15 the land covered thereby within the time therein specified or rentals are paid           15  
16 for the privilege of deferring such drilling operations, the rentals required           16  
17 thereby shall, notwithstanding any other provisions of this agreement, be deemed           17  
18 to accrue and become payable during the term thereof as extended by this agree-           18  
19 ment and until the required drilling operations are commenced upon the land           19  
20 covered thereby or until some portion of such land is included within a partici-           20  
21 pating area.           21

22           16. CONSERVATION. Operations hereunder and production of unitized           22  
23 substances shall be conducted to provide for the most economical and efficient           23  
24 recovery of said substances without waste, as defined by or pursuant to State or           24  
25 Federal law or regulation.           25

26           17. DRAINAGE. The Unit Operator shall take such measures as the           26  
27 Supervisor and Land Commissioner deems appropriate and adequate to prevent           27  
28 drainage of unitized substances from unitized land by wells on land not subject           28  
29 to this agreement.           29

30           18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, con-           30  
31 ditions, and provisions of all leases, subleases, and other contracts relating           31  
32 to exploration, drilling, development, or operation for oil or gas on lands com-           32  
33 mitted to this agreement are hereby expressly modified and amended to the extent           33  
34 necessary to make the same conform to the provisions hereof, but otherwise to           34  
35 remain in full force and effect; and the parties hereto hereby consent that the           35  
36 Secretary as to Federal leases, and the Land Commissioner as to State leases,           36  
37 shall and each by his approval hereof, or by the approval hereof by his duly           37  
38 authorized representative, does hereby establish, alter, change or revoke the           38  
39 drilling, producing, rental, minimum royalty, and royalty requirements of Federal           39  
40 and State leases committed hereto and the regulations in respect thereto to           40  
41 conform said requirements to the provisions of this agreement, and, without           41  
42 limiting the generality of the foregoing, all leases, subleases, and contracts           42  
43 are particularly modified in accordance with the following:           43

44           (a) The development and operation of lands subject to this           44  
45 agreement under the terms hereof shall be deemed full performance           45  
46 of all obligations for development and operation with respect to           46  
47 each and every separately owned tract subject to this agreement,           47  
48 regardless of whether there is any development of any particular           48  
49 tract of the unit area.           49

50           (b) Drilling and producing operations performed hereunder upon           50  
51 any tract of unitized lands will be accepted and deemed to be           51  
52 performed upon and for the benefit of each and every tract of           52  
53 unitized land, and no lease shall be deemed to expire by reason           53  
54 of failure to drill or produce wells situated on the land therein           54  
55 embraced.           55

56           (c) Suspension of drilling or producing operations on all unitized           56  
57 lands pursuant to direction or consent of the Secretary and the           57  
58 Land Commissioner or their duly authorized representatives shall be           58  
59 deemed to constitute such suspension pursuant to such direction or           59  
60 consent as to each and every tract of unitized land. A suspension           60

1 of drilling or producing operations limited to specified 1  
2 lands shall be applicable only to such lands. 2

3 (d) Each lease, sublease or contract relating to the 3  
4 exploration, drilling, development or operation for oil or gas 4  
5 of lands other than those of the United States and the State 5  
6 of New Mexico committed to this agreement, which, by its terms 6  
7 might expire prior to the termination of this agreement, is 7  
8 hereby extended beyond any such terms so provided therein so 8  
9 that it shall be continued in full force and effect for and 9  
10 during the term of this agreement. 10

11 (e) Any Federal lease for a fixed term of twenty (20) years or 11  
12 any renewal thereof or any part of such lease which is made sub- 12  
13 ject to this agreement shall continue in force beyond the term 13  
14 provided therein until the termination hereof. Any other Federal 14  
15 lease committed hereto shall continue in force beyond the term so 15  
16 provided therein or by law as to the land committed so long as 16  
17 such lease remains subject hereto, provided that production is 17  
18 had in paying quantities under this unit agreement prior to the 18  
19 expiration date of the term of such lease, or in the event actual 19  
20 drilling operations are commenced on unitized land, in accordance 20  
21 with the provisions of this agreement, prior to the end of the 21  
22 primary term of such lease and are being diligently prosecuted 22  
23 at that time, such lease shall be extended for two years and so 23  
24 long thereafter as oil or gas is produced in paying quantities in 24  
25 accordance with the provisions of the Mineral Leasing Act Revision 25  
26 of 1960. 26

27 (f) Each sublease or contract relating to the operation and 27  
28 development of unitized substances from lands of the United States 28  
29 committed to this agreement, which by its terms would expire prior 29  
30 to the time at which the underlying lease, as extended by the 30  
31 immediately preceding paragraph, will expire, is hereby extended 31  
32 beyond any such term so provided therein so that it shall be con- 32  
33 tinued in full force and effect for and during the term of the 33  
34 underlying lease as such term is herein extended. 34

35 (g) Any lease embracing lands of the State of New Mexico which is 35  
36 made subject to this agreement, shall continue in force beyond the 36  
37 term provided therein as to lands committed hereto with the ter- 37  
38 mination hereof. 38

39 (h) The segregation of any Federal lease committed to this agree- 39  
40 ment is governed by the following provision in the fourth paragraph 40  
41 of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of 41  
42 September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease hereto- 42  
43 fore or hereafter committed to any such (unit) plan embracing lands 43  
44 that are in part within and in part outside of the area covered by 44  
45 any such plan shall be segregated into separate leases as to the lands 45  
46 committed and the lands not committed as of the effective date of the 46  
47 unitization: Provided, however, That any such lease as to the non- 47  
48 unitized portion shall continue in force and effect for the term 48  
49 thereof but for not less than two years from the date of such segre- 49  
50 gation and so long thereafter as oil or gas is produced in paying 50  
51 quantities." 51

53 (i) Any lease embracing lands of the State of New Mexico having 53  
54 only a portion of its land committed hereto, shall be segregated 54  
55 as to the portion committed and the portion not committed, and the 55  
56 provisions of such lease shall apply separately to such segre- 56  
57 gated portions commencing as of the effective date hereof; pro- 57  
58 vided, however, notwithstanding any of the provisions of this 58  
59 agreement to the contrary any lease embracing lands of the State 59  
60 of New Mexico having only a portion of its lands committed hereto 60  
61 shall continue in full force and effect beyond the term provided 61

1 therein as to all lands embraced in such lease, if oil or gas 1  
2 is discovered and is capable of being produced in paying quanti- 2  
3 ties from some part of the lands embraced in such lease at the 3  
4 expiration of the secondary term of such lease; or if, at the 4  
5 expiration of the secondary term, the Lessee of the Unit Operator 5  
6 is then engaged in bona fide drilling or re-working operations on 6  
7 some part of the lands embraced in such lease, the same, as to all 7  
8 lands embraced therein, shall remain in full force and effect so 8  
9 long as such operations are being diligently prosecuted, and if 9  
10 they result in the production of oil or gas, said lease shall 10  
11 continue in full force and effect as to all of the lands embraced 11  
12 therein, so long thereafter as oil or gas in paying quantities is 12  
13 being produced from any portion of said lands. 13

14 19. COVENANTS RUN WITH LAND. The covenants herein shall be con- 14  
15 strued to be covenants running with the land with respect to the interest of 15  
16 the parties hereto and their successors in interest until this agreement ter- 16  
17 minates, and any grant, transfer, or conveyance, of interest in land or leases 17  
18 subject hereto shall be and hereby is conditioned upon the assumption of all 18  
19 privileges and obligations hereunder by the grantee, transferee, or other suc- 19  
20 cessor in interest. No assignment or transfer of any working interest, royalty, 20  
21 or other interest subject hereto shall be binding upon Unit Operator until 21  
22 the first day of the calendar month after Unit Operator is furnished with the 22  
23 original, photostatic, or certified copy of the instrument of transfer. 23

24 20. EFFECTIVE DATE AND TERM. This agreement shall become effective 24  
25 upon approval by the Secretary and the Land Commissioner or their duly authorized 25  
26 representative and shall terminate five (5) years from said effective date unless 26

27 (a) such date of expiration is extended by the Director 27  
28 and the Land Commissioner, or 28

29 (b) it is reasonably determined prior to the expiration of 29  
30 the fixed term or any extension thereof that the unitized land 30  
31 is incapable of production of unitized substances in paying quanti- 31  
32 ties in the formations tested hereunder and after notice of intention 32  
33 to terminate the agreement on such ground is given by the Unit Oper- 33  
34 ator to all parties in interest at their last known addresses, the 34  
35 agreement is terminated with the approval of the Supervisor and Land 35  
36 Commissioner, or 36

38 (c) a valuable discovery of unitized substances has been made or 38  
39 accepted on unitized land during said initial term or any extension 39  
40 thereof, in which event the agreement shall remain in effect for such 40  
41 term and so long as unitized substances can be produced in quantities 41  
42 sufficient to pay for the cost of producing same from wells on unitized 42  
43 land within any participating area established hereunder and, should 43  
44 production cease, so long thereafter as diligent operations are in 44  
45 progress for the restoration of production or discovery of new pro- 45  
46 duction and so long thereafter as unitized substances so discovered 46  
47 can be produced as aforesaid, or 47

48 (d) it is terminated as heretofore provided in this agreement. 48

49 This agreement may be terminated at any time by not less than 75 per centum, on 49  
50 an acreage basis, of the working interest owners signatory hereto, with the 50  
51 approval of the Supervisor and Land Commissioner; notice of any such approval 51  
52 to be given by the Unit Operator to all parties hereto. 52

53 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is 53  
54 hereby vested with authority to alter or modify from time to time in his discre- 54  
55 tion the quantity and rate of production under this agreement when such quantity 55  
56 and rate is not fixed pursuant to Federal or State law or does not conform to 56  
57 any state-wide voluntary conservation or allocation program, which is established, 57  
58 recognized, and generally adhered to by the majority of operators in such State, 58  
59 such authority being hereby limited to alteration or modification in the public 59  
60 interest, the purpose thereof and the public interest to be served thereby to be 60

1 stated in the order of alteration or modification. Without regard to the 1  
2 foregoing, the Director is also hereby vested with authority to alter or modify 2  
3 from time to time in his discretion the rate of prospecting and development and 3  
4 the quantity and rate of production under this agreement when such alteration 4  
5 or modification is in the interest of attaining the conservation objectives stated 5  
6 in this agreement and is not in violation of any applicable Federal or State law; 6  
7 provided, further, that no such alteration or modification shall be effective as 7  
8 to any land of the State of New Mexico, as to the rate of prospecting and develop- 8  
9 ing in the absence of the specific written approval thereof by the Commissioner 9  
10 and as to any lands of the State of New Mexico or privately owned lands subject 10  
11 to this agreement as to the quantity and rate of production in the absence of 11  
12 specific written approval thereof by the Commission. 12

13 Powers in this section vested in the Director shall only be exercised 13  
14 after notice to Unit Operator and opportunity for hearing to be held not less 14  
15 than 15 days from notice. 15

16 22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the work- 16  
17 ing interest owners nor any of them shall be subject to any forfeiture, termi- 17  
18 nation or expiration of any rights hereunder or under any leases or contracts 18  
19 subject hereto, or to any penalty or liability on account of delay or failure in 19  
20 whole or in part to comply with any applicable provision thereof to the extent 20  
21 that the Unit Operator, working interest owners or any of them are hindered, 21  
22 delayed or prevented from complying therewith by reason of failure of the Unit 22  
23 Operator to obtain in the exercise of due diligence, the concurrence of proper 23  
24 representatives of the United States and proper representatives of the State of 24  
25 New Mexico in and about any matters of thing concerning which it is required 25  
26 herein that such concurrence be obtained. The parties hereto, including the 26  
27 Conservation Commission, agree that all powers and authority vested in the Con- 27  
28 servation Commission in and by any provisions of this agreement are vested in 28  
29 the Conservation Commission and shall be exercised by it pursuant to the pro- 29  
30 visions of the laws of the State of New Mexico and subject in any case to appeal 30  
31 or judicial review as may now or hereafter be provided by the laws of the State 31  
32 of New Mexico. 32

33 23. APPEARANCES. Unit Operator shall, after notice to other parties 33  
34 affected, have the right to appear for and on behalf of any and all interests 34  
35 affected hereby before the Department of the Interior, the Commissioner of Public 35  
36 Lands of the State of New Mexico and the New Mexico Oil Conservation Commission 36  
37 and to appeal from orders issued under the regulations of said Department, the 37  
38 Conservation Commission or Land Commissioner or to apply for relief from any of said 38  
39 regulations or in any proceedings relative to operations before the Department 39  
40 of the Interior, the Land Commissioner, or Conservation Commission or any other 40  
41 legally constituted authority; provided, however, that any other interested party 41  
42 shall also have the right at his own expense to be heard in any such proceeding. 42

43 24. NOTICES. All notices, demands or statements required hereunder 43  
44 to be given or rendered to the parties hereto shall be deemed fully given if 44  
45 given in writing and personally delivered to the party or sent by postpaid 45  
46 registered or certified mail, addressed to such party or parties at their 46  
47 respective addresses set forth in connection with the signatures hereto or to 47  
48 the ratification or consent hereof or to such other address as any such party 48  
49 may have furnished in writing to party sending the notice, demand or statement. 49

50 25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement con- 50  
51 tained shall be construed as a waiver by any party hereto of the right to assert 51  
52 any legal or constitutional right or defense as to the validity or invalidity of 52  
53 any law of the State wherein said unitized lands are located, or of the United 53  
54 States, or regulations issued thereunder in any way affecting such party, or as 54  
55 a waiver by any such party of any right beyond his or its authority to waive. 55

56 26. UNAVOIDABLE DELAY. All obligations under this agreement requiring 56  
57 the Unit Operator to commence or continue drilling or to operate on or produce 57  
58 unitized substances from any of the lands covered by this agreement shall be sus- 58  
59 pended while the Unit Operator, despite the exercise of due care and diligence, 59  
60 is prevented from complying with such obligations, in whole or in part, by 60

1 strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable 1  
2 able accidents, uncontrollable delays in transportation, inability to obtain 2  
3 necessary materials in open market, or other matters beyond the reasonable con- 3  
4 trol of the Unit Operator whether similar to matters herein enumerated or not. 4  
5 No unit obligation which is suspended under this section shall become due less 5  
6 than thirty (30) days after it has been determined that the suspension is no 6  
7 longer applicable. Determination of creditable "Unavoidable Delay" time shall 7  
8 be made by the Unit Operator subject to approval of the Supervisor and the Land 8  
9 Commissioner. 9

10 27. NONDISCRIMINATION. In connection with the performance of work 10  
11 under this agreement, the operator agrees to comply with all the provisions of 11  
12 section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), which 12  
13 are hereby incorporated by reference in this agreement. 13

14 28. LOSS OF TITLE. In the event title to any tract of unitized land 14  
15 shall fail and the true owner cannot be induced to join in this unit agreement, 15  
16 such tract shall be automatically regarded as not committed hereto and there shall 16  
17 be such readjustment of future costs and benefits as may be required on account 17  
18 of the loss of such title. In the event of a dispute as to title as to any 18  
19 royalty, working interest, or other interests subject thereto, payment or delivery 19  
20 on account thereof may be withheld without liability for interest until the dis- 20  
21 pute is finally settled; provided, that, as to Federal and State land or leases, 21  
22 no payments of funds due the United States or the State of New Mexico should be 22  
23 withheld, but such funds of the United States shall be deposited as directed by 23  
24 the Supervisor and such funds of the State of New Mexico shall be deposited as 24  
25 directed by the Land Commissioner to be held as unearned money pending final 25  
26 settlement of the title dispute, and then applied as earned or returned in 26  
27 accordance with such final settlement. 27

28 Unit Operator as such is relieved from any responsibility for any 28  
29 defect or failure of any title hereunder. 29

30 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any sub- 30  
31 stantial interest in a tract within the unit area fails or refuses to subscribe 31  
32 or consent to this agreement, the owner of the working interest in that tract 32  
33 may withdraw said tract from this agreement by written notice delivered to the 33  
34 Supervisor and the Land Commissioner, and the Unit Operator prior to the approval 34  
35 of this agreement by the Supervisor. Any oil or gas interests in lands within the 35  
36 unit area not committed hereto prior to submission of this agreement for final 36  
37 approval may thereafter be committed hereto by the owner or owners thereof sub- 37  
38 scribing or consenting to this agreement, and, if the interest is a working int- 38  
39 erest, by the owner of such interest also subscribing to the unit operating 39  
40 agreement. After operations are commenced hereunder, the right of subsequent 40  
41 joinder, as provided in this section, by a working interest owner is subject to 41  
42 such requirements or approvals, if any, pertaining to such joinder, as may be 42  
43 provided for in the unit operating agreement. After final approval hereof, 43  
44 joinder by a non-working interest owner must be consented to in writing by the 44  
45 working interest owner committed hereto and responsible for the payment of any 45  
46 benefits that may accrue hereunder in behalf of such non-working interest. A 46  
47 non-working interest may not be committed to this unit agreement unless the 47  
48 corresponding working interest is committed hereto. Joinder to the unit agree- 48  
49 ment by a working interest owner, at any time, must be accompanied by appropri- 49  
50 ate joinder to the unit operating agreement, if more than one committed working 50  
51 interest owner is involved, in order for the interest to be regarded as committed 51  
52 to this unit agreement. Except as may otherwise herein be provided, subsequent 52  
53 joinders to this agreement shall be effective as of the first day of the month 53  
54 following the filing with the Supervisor, the Land Commissioner and the Conser- 54  
55 vation Commission of duly executed counterparts of all or any papers necessary 55  
56 to establish effective commitment of any tract to this agreement unless object- 56  
57 ion to such joinder is duly made within 60 days by the Supervisor or Land Com- 57  
58 missioner, provided, that as to State lands, all subsequent joinders must be 58  
59 approved by the Land Commissioner. 59

60 30. COUNTERPARTS. This agreement may be executed in any number of 60  
61 counterparts no one of which needs to be executed by all parties or may be rati- 61  
62 fied or consented to by separate instrument in writing specifically referring 62

1 hereto and shall be binding upon all those parties who have executed such a 1  
2 counterpart, ratification, or consent hereto with the same force and effect 2  
3 as if all such parties had signed the same document and regardless of whether 3  
4 or not it is executed by all other parties owning or claiming an interest in 4  
5 the lands within the above-described unit area. 5

6 31. SURRENDER. Nothing in this agreement shall prohibit the exer- 6  
7 cise by any working interest owner of the right to surrender vested in such 7  
8 party by any lease, sublease, or operating agreement as to all or any part of 8  
9 the lands covered thereby, provided that each party who will or might acquire 9  
10 such working interest by such surrender or by forfeiture as hereafter set forth, 10  
11 is bound by the terms of this agreement. 11

12 If as a result of any such surrender the working interest rights as to 12  
13 such lands become vested in any party other than the fee owner of the unitized 13  
14 substances, said party may forfeit such rights and further benefits from opera- 14  
15 tion hereunder as to said land to the party next in the chain of title who shall 15  
16 be and become the owner of such working interest. 16

17 If as a result of any such surrender or forfeiture working interest 17  
18 rights become vested in the fee owner of the unitized substances, such owner 18  
19 may: 19

20 (1) Accept those working interest rights subject to this agreement; 20  
21 or 21

22 (2) Lease the portion of such land as is included in a partici- 22  
23 pating area established hereunder subject to this agreement 23  
24 and the unit operating agreement. 24

25 (3) Provide for the independent operation of any part of such 25  
26 land that are not then included within a participating area 26  
27 established hereunder. 27

28 If the fee owner of the unitized substances does not accept the work- 28  
29 interest rights subject to this agreement and the unit operating agreement or 29  
30 lease such lands as above provided within six (6) months after the surrendered 30  
31 or forfeited working interest rights become vested in the fee owner, the benefits 31  
32 and obligations of operations accruing to such lands under this agreement and 32  
33 the unit operating agreement shall be shared by the remaining owners of unitized 33  
34 working interests in accordance with their respective working interest owner- 34  
35 ships, and such owners of working interests shall compensate the fee owner of 35  
36 unitized substances in such lands by paying sums equal to the rentals, minimum 36  
37 royalties, and royalties applicable to such lands under the lease in effect when 37  
38 the lands were unitized. 38

39 An appropriate accounting and settlement shall be made for all benefits 39  
40 accruing to or payments and expenditures made or incurred on behalf of such sur- 40  
41 rendered or forfeited working interest subsequent to the date of surrender or 41  
42 forfeiture, and payment of any monies found to be owing by such an accounting 42  
43 shall be made as between the parties within thirty (30) days. In the event no 43  
44 unit operating agreement is in existence and a mutually acceptable agreement be- 44  
45 tween the proper parties thereto cannot be consummated, the Supervisor may pre- 45  
46 scribe such reasonable and equitable agreement as he deems warranted under the 46  
47 circumstances. 47

48 The exercise of any right vested in a working interest owner to reassign 48  
49 such working interest to the party from whom obtained shall be subject to the 49  
50 same conditions as set forth in this section in regard to the exercise of a right 50  
51 to surrender. 51.

52 32. TAXES. The working interest owners shall render and pay for their 52  
53 account and the account of the royalty owners all valid taxes on or measured by 53  
54 the unitized substances in and under or that may be produced, gathered and sold 54  
55 from the land subject to this contract after the effective date of this agree- 55  
56 ment, or upon the proceeds or net proceeds derived therefrom. The working inter- 56  
57 est owners on each tract shall and may charge the proper proportion of said taxes 57

1 to the royalty owners having interests in said tract, and may currently retain 1  
2 and deduct sufficient of the unitized substances or derivative products, or net 2  
3 proceeds thereof from the allocated share of each royalty owner to secure re- 3  
4 imbursement for the taxes so paid. No such taxes shall be charged to the United 4  
5 States or the State of New Mexico or to any lessor who has a contract with his 5  
6 lessee which requires the lessee to pay such taxes. 6

7 33. NO PARTNERSHIP. It is expressly agreed that the relation of the 7  
8 parties hereto is that of independent contractors and nothing in this agreement 8  
9 contained, expressed or implied, nor any operations conducted hereunder, shall 9  
10 create or be deemed to have created a partnership or association between the 10  
11 parties hereto or any of them. 11

1 IN WITNESS WHEREOF, the parties hereto have caused this  
2 agreement to be executed and have set opposite their respective  
3 names the date of execution.

1  
2  
3

UNIT OPERATOR

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

\_\_\_\_\_  
E. B. White, Jr.  
Address: Box 1026  
Midland, Texas 79701

UNION OIL COMPANY OF CALIFORNIA

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

By \_\_\_\_\_  
Attorney-in-Fact  
Address: Box 3100  
Midland, Texas 79701

GULF OIL CORPORATION

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

By \_\_\_\_\_  
Address: Box 1150  
Midland, Texas 79701

TEXACO INC.

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

By \_\_\_\_\_  
Address: Box 1270  
Midland, Texas 79701

EXHIBIT "B"  
 PHANTOM BANKS UNIT AREA - EDDY COUNTY, NEW MEXICO  
 TOWNSHIP 26 SOUTH, RANGE 31 EAST

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OR PRODUCTION PAYMENT & PERCENTAGES	WORKING INTEREST AND PERCENTAGE
<u>FEDERAL LANDS</u>							
1	Sec. 19: Lot 4	40.34	NM-0287492 7-31-72	USA - All	Gulf Oil Corp.	Don Link Carol Hoffman Myrtle F. Hoffman	3% 1% 1% Gulf Oil Corp. All
2	Sec. 28: SW/4, W/2 SE/4, SE/4 SE/4	280.00	NM-0377931 4-30-73	USA - All	Union Oil Company of California	Joseph W. Gould & E.J. Gould - \$750 p/a out of 5%	Union Oil Company of California All
3	Sec. 28: N/2 Sec. 29: NE/4 NE/4	360.00	NM-0405931-A 7-31-73	USA - All	Texaco Inc.	Lester Gold S. G. Merritt	2% 1% Texaco Inc. All
4	Sec. 20: All Sec. 29: S/2, NW/4, W/2 NE/4, SE/4 NE/4	1240.00	NM-0437880 9-30-73	USA - All	Union Oil Company of California	Herbert E. Doolittle	5% Union Oil Company of California All
5	Sec. 8: N/2, SE/4, S/2 SW/4, NW/4 SW/4 Sec. 9: All Sec. 18: E/2 Sec. 30: All	2201.36	NM-0438001 9-30-73	USA - All	Union Oil Company of California	George Rufus O'Connor Trust Thomas Ireland O'Connor III Trust Nancy Isabel O'Connor Trust John Herman O'Connor Trust	1.25% 1.25% 1.25% 1.25% 1.25% 1.25% 1.25% Union Oil Company of California All

EXHIBIT "B"  
 PHANTOM BANKS UNIT AREA - EDDY COUNTY, NEW MEXICO  
 TOWNSHIP 26 SOUTH, RANGE 31 EAST

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OR PRODUCTION PAYMENT & PERCENTAGES	WORKING INTEREST AND PERCENTAGE
<u>FEDERAL LANDS (Cont'd)</u>							
6	Sec. 7: All Sec. 17: All Sec. 18: Lots 1,2, 3,4, & E/2 W/2 Sec. 19: Lots 1,2, 3, & E/2 W/2	1880.66	NM-0459594 10-31-73	USA - All	Union Oil Company of California	Barbara Davis & Marvin Davis 4%	Union Oil Company of California All
7	Sec. 21: All	640.00	NM-0459862 10-31-73	USA - All	Union Oil Company of California	Thomas Allen & Jerune Allen 3%	Union Oil Company of California All
8	Sec. 19: E/2	320.00	NM-0459862-A 10-31-73	USA - All	Union Oil Company of California	Thomas Allen & Jerune Allen 5%	Union Oil Company of California All

8 Federal Tracts 6962.36 acres 90.62788% of Unit Area

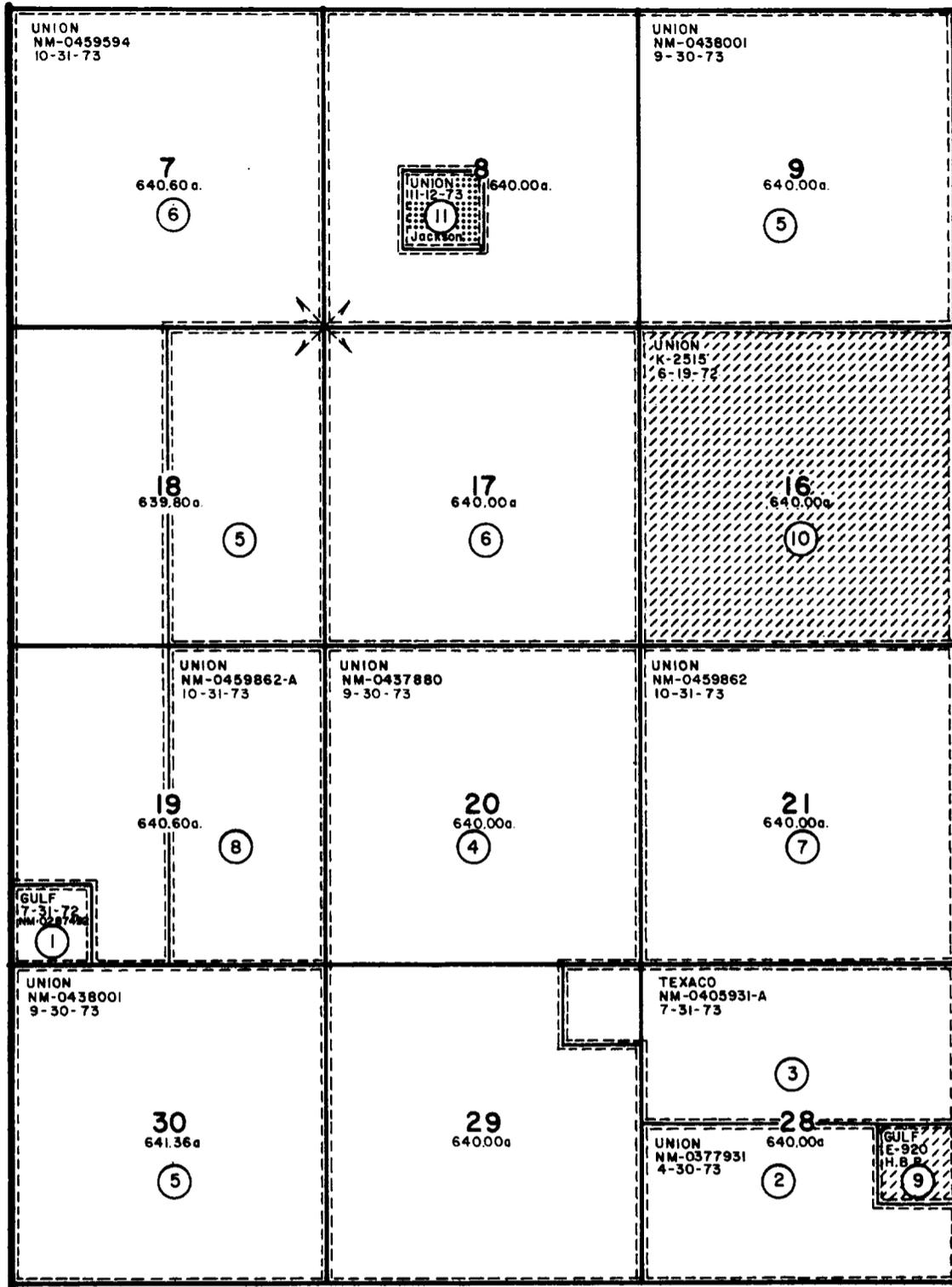
NEW MEXICO STATE LANDS

9	Sec. 28: NE/4 SE/4	40.00	E-920 HBP	State of New Mexico All	Gulf Oil Corp.	None	Gulf Oil Corp. All
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EXHIBIT "B"  
 PHANTOM BANKS UNIT AREA - EDDY COUNTY, NEW MEXICO  
 TOWNSHIP 26 SOUTH, RANGE 31 EAST

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OR PRODUCTION PAYMENT & PERCENTAGES	WORKING INTEREST AND PERCENTAGE
<u>NEW MEXICO STATE LANDS (Cont'd.)</u>							
10	Sec. 16: All	640.00	K-2515 6-19-72	State of New Mexico All	Union Oil Company of California	None	Union Oil Company of California All
2 State of New Mexico Tracts 680 acres 8.85145% of Unit Area							
<u>FEE LEASES</u>							
11	Sec. 8: NE/4 SW/4	40.00	Exp. 11-12-73	Buck Jackson All	Union Oil Company of California	None	Union Oil Company of California All
1 Patented Tract 40 acres 0.52067% of Unit Area							
TOTAL 11 TRACTS 7682.36 ACRES IN UNIT AREA							

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① MEANS TRACT NUMBER AS LISTED ON EXHIBIT B

EXHIBIT "A"

PHANTOM BANKS UNIT

EDDY COUNTY, NEW MEXICO



TYPE OF LAND	AREA	PERCENT OF UNIT AREA
 FEDERAL	6962.36a	90.62788 %
 STATE	680.00a	8.85145 %
 PATENTED	40.00a	.52067 %
	<u>7682.36a</u>	<u>100.00000 %</u>

Union Oil Company of California

Suite 300 Security Nat'l Bank Bldg., Roswell, N. M. 88201  
Telephone (505) 622-8742

**UNION** 76

OIL COMPANY OF CALIFORNIA  
Santa Fe

September 27, 1973

U. S. Geological Survey  
P. O. Box 1857  
Roswell, New Mexico 88201

Attn: Mr. Jim Gillham

Gentlemen:

Re: Phantom Banks Unit Agreement  
No. 14-08-0001-13803

We enclose herewith copy of Certificate of Approval from the Commissioner of Public Lands approving the Phantom Banks Unit Agreement. This approval is dated September 25, 1973.

Yours very truly,

UNION OIL COMPANY OF CALIFORNIA

*Original Signed By*  
*W. M. Stanley*

W. M. Stanley  
District Land Manager

WMS:js  
Encl.

cc: N. M. State Land Office  
P. O. Box 1148  
Santa Fe, New Mexico 87501

N. M. Oil Conservation Commission/Encl. ✓  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Gulf Oil Corporation/Encl.  
P. O. Box 1150  
Midland, Texas 79701

John Hansen/Midland/Encl.



# NEW MEXICO STATE LAND OFFICE

## CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

PHANTOM BANKS UNIT

EDDY COUNTY, NEW MEXICO

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There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated December 30, 1971, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, and 7-11-48, New Mexico Statutes Annotated, 1953 Compilation, I, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and, further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions and requirements of the afore-said statutes.

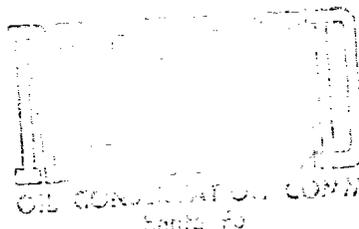
IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 25th. day of September, 19 73.

  
COMMISSIONER OF PUBLIC LANDS  
of the State of New Mexico

Union Oil Company of California

Suite 300 Security Nat'l Bank Bldg., Roswell, N. M. 88201  
Telephone (505) 622-8742

**UNION 76**



September 27, 1973

Commissioner of Public Lands  
State of New Mexico  
P. O. Box 1148  
Santa Fe, New Mexico 87501

Attn: Mr. Ray D. Graham

Gentlemen:

Re: Phantom Banks Unit Agreement  
No. 14-08-0001-13803

We enclose herewith copy of a letter from the U.S.G.S. together with Certificate of Determination approving the Phantom Banks Unit Agreement effective September 26, 1973.

Yours very truly,

UNION OIL COMPANY OF CALIFORNIA

*Original Signed By*  
*W. M. Stanley*

W. M. Stanley  
District Land Manager

WMS:js  
Encls.

cc: Oil Conservation Commission/Encls.  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Gulf Oil Corporation/Encls.  
P. O. Box 1150  
Midland, Texas 79701

John Hansen/Midland/Encls.



# United States Department of the Interior

## GEOLOGICAL SURVEY

Drawer 1857  
Roswell, New Mexico 88201

September 26, 1973

Union Oil Company of California  
Attention: Mr. W. M. Stanley  
Suite 300, Security National Bank Building  
Roswell, New Mexico 88201

Gentlemen:

The Phantom Banks unit agreement, Eddy County, New Mexico, was approved on September 26, 1973. This agreement has been assigned No. 14-08-0001-13803 and is effective as of the date of approval.

One approved copy of the agreement is enclosed. We request that you furnish the Commissioner of Public Lands, the Oil Conservation Commission both of the State of New Mexico and all other interested principals with appropriate evidence of this approval.

Sincerely yours,

CARL C. TRAYWICK  
Acting Area Oil and Gas Supervisor

CERTIFICATION--DETERMINATION

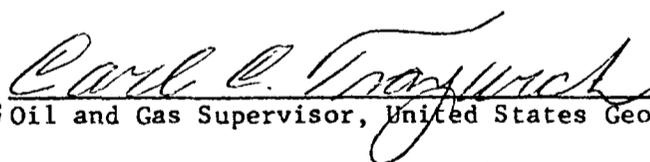
Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. secs. 181, et seq., and delegated to the Oil and Gas Supervisors of the Geological Survey (33 F.R. 5812), I do hereby:

A. Approve the attached agreement for the development and operation of the Phantom Banks Unit Area, State of New Mexico.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated SEP 26 1973.

  
ACTING Oil and Gas Supervisor, United States Geological Survey

Contract Number 14-08-0001-13803

Unit Name PHANTOM BANKS UNIT  
 Operator UNION OIL COMPANY OF CALIFORNIA  
 County EDDY

*o c c*

DATE	OCC CASE NO.	4718	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	<del>XXXXXX</del> -FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO.	R-4312	9-26-73	7,682.36	680.00	6,962.36	40.00	Yes	5 Yrs.
Commissioner	May 24, 1972								
9-25-73									

(Tract 1(Federal) Unleased  
 Tract 7(Federal) NOT COMMITTED  
 Tract 8(Federal) NOT COMMITTED)

UNIT AREA

TOWNSHIP 26 SOUTH, RANGE 31 EAST, NMPM  
 Sections 7 through 9: A11  
 Sections 16 through 21: A11  
 Sections 28 through 30: A11

Unit Name PHANTOM BANKS UNIT  
 Operator UNION OIL COMPANY OF CALIFORNIA  
 County EDDY

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED		LESSEE
							DATE	ACRES	
9	E-920	C.S.	28	26S	31E	NE/4SE/4	9-24-73	40.00	Gulf Oil Corporation
10	LG-1200	C.S.	16	26S	31E	A11	9-24-73	640.00	Gulf Oil Corporation

Unit Name PHANTOM BANKS UNIT  
 Operator UNION OIL COMPANY OF CALIFORNIA  
 County EDDY

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED		ACREAGE NOT RATIFIED	LESSEE
							DATE	ACRES		
9	E-920	C.S.	28	26S	31E	NE/4SE/4	9-24-73	40.00		Gulf Oil Corporation
10	IG-1200	C.S.	16	26S	31E	All	9-24-73	640.00		Gulf Oil Corporation

**TERMINATED**  
 SM: 10-16-73

*CARL*

Unit Name PHANTOM BANKS UNIT  
Operator UNION OIL COMPANY OF CALIFORNIA  
County EDDY

*4775*

DATE	OCC CASE NO.	4718	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO.	R-4312						
Commissioner	May 24, 1972		9-26-73	7,682.36	680.00	6,962.36	Yes	5 Yrs.

(Tract 1 (Federal) Unleased  
Tract 7 (Federal) NOT COMMITTED  
Tract 8 (Federal) NOT COMMITTED)

~~XXXXXX~~-FEE

UNIT AREA

TOWNSHIP 26 SOUTH, RANGE 31 EAST, NMPM  
Sections 7 through 9: All  
Sections 16 through 21: All  
Sections 28 through 30: All

TERMINATED  
ER. 10-16-73