

Copy
Exhibit # 6-54

5-22-44

→ note: Not an exhibit - but

a work file copy of final PICACHO UNIT AGREEMENT
LINCOLN COUNTY, NEW MEXICO

form of agreement brought
to hearing by John Kelly - however the exhibit of this form of agreement is attached
to applicant's petition, which see.

THIS AGREEMENT, entered into as of the 25th day of May, 1944, by and between
the parties subscribing or consenting hereto;

W I T N E S S E T H:

WHEREAS, the parties subscribing hereto are the owners of operating, royalty,
or other oil or gas interests in the Unit Area subject to this agreement; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources,
prevent avoidable waste and secure other benefits obtainable through development and
operation of the Unit Area subject to this agreement under the terms, conditions
and limitations hereinafter set forth, under and pursuant to the provisions of Sections
17, 27 and 32 of the Act of Congress approved February 25, 1920, entitled: "An Act
to Promote the Mining of Coal, Phosphate, Oil, Oil Shale, Gas and Sodium on the Public
Domain," 41 Stat. 443, 448, 450, as amended or supplemented by the Acts of March 4, 1931,
46 Stat. 1523, and August 21, 1935, 49 Stat. 676; 30 U.S.C. 226, 184, and 189; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is author-
ized by an Act of the Legislature (Chap. 88, Laws 1943) to consent to or approve this
agreement on behalf of the State of New Mexico, insofar 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 author-
ized by an Act of the Legislature (Chap. 72, Laws 1935) to approve this agreement
and the conservation provisions hereof;

NOW, THEREFORE, for and in consideration of the premises and the promises
hereinafter contained, the parties subscribing hereto and the parties consenting hereto
agree as follows:

1. LAWS AND REGULATIONS: The Act of Congress, approved February 25, 1920,
supra, as amended, and the Acts of the Legislature of the State of New Mexico (Chap.
72, Laws of 1935 and Chapter 88, Laws 1943) and all pertinent regulations issued
thereunder, including operating regulations, are accepted and made a part of this
agreement.

2. DEFINITIONS: For all purposes of this agreement, certain terms used herein
are defined as follows:

(a) "Secretary" shall mean the Secretary of the Interior of the United States
and those persons or agencies duly authorized to act for and in his behalf.

(b) "Supervisor" shall mean the Oil and Gas Supervisor of the United States
Geological Survey and those persons or agencies duly authorized to act for and in
his behalf.

(c) "Commissioner" shall mean the Commissioner of Public Lands of the State
of New Mexico.

(d) "Commission" shall mean the Oil Conservation Commission of the State of
New Mexico and those persons duly authorized to act for and in its behalf.

(e) "Working Interest Owner" shall mean a party hereto whose interest in the
unitized substances under existing contracts and under this agreement is subject to
a charge for, or an obligation to pay a portion of the costs and expenses of opera-
tions hereunder.

(f) "Royalty Owner" shall mean a party hereto or consenting hereto whose
interest in the unitized substances is free from any obligation, liability, or
charge for and on account of the costs and expenses of operations hereunder.

(g) "Paying Quantities" shall mean a quantity of the unitized substances
sufficient to repay the cost of drilling, equipping and operating the well and a
small profit in addition thereto.

3. UNIT AREA: The following described lands are hereby designated and recognized as constituting the Unit Area:

In Township 11 South. Range 18 East

All of Sections 17, 20, 21, 26, 27, 28, 33, 34, and 35

Section 16: $S\frac{1}{2}$
Section 22: $W\frac{1}{2}$, $SE\frac{1}{4}$, $S\frac{1}{2}$ $NE\frac{1}{4}$
Section 23: $S\frac{1}{2}$, $S\frac{1}{2}$ $NW\frac{1}{4}$
Section 24: $SW\frac{1}{4}$
Section 25: $W\frac{1}{2}$
Section 29: $E\frac{1}{2}$, $E\frac{1}{2}$ $W\frac{1}{2}$
Section 32: $E\frac{1}{2}$
Section 36: $W\frac{1}{2}$

In Township 12 South. Range 18 East

All of Sections 1, 2, 3, 4, 9, 10, 11, 12, 13, 14, 15, 22, 23, 26, and 27

Section 5: $E\frac{1}{2}$
Section 8: $E\frac{1}{2}$, $E\frac{1}{2}$
Section 16: $E\frac{1}{2}$, $E\frac{1}{2}$ $W\frac{1}{2}$
Section 21: $E\frac{1}{2}$
Section 24: $W\frac{1}{2}$
Section 28: $E\frac{1}{2}$
Section 34: $N\frac{1}{2}$
Section 35: $N\frac{1}{2}$

Embracing 20,471.33 Acres

The Unit Operator, with the consent of a majority in interest of the Working Interest, and subject to the approval of the Secretary, the Commissioner and the Commission, may enlarge the unit area to include other lands believed to be productive of the unitized substances, or may with like consent and approval, diminish the unit area to exclude lands not in any participating area hereunder which is believed to be barren of the unitized substances.

Exhibit "A" attached hereto is a map on which is outlined the herein established Unit Area, together with the ownership of the land and leases in said Area. Exhibit "B" attached hereto is a schedule showing the nature and extent of ownership of oil and gas rights in all land in the Unit Area to which this unit agreement will become applicable by signature hereto, or to a counterpart hereof, by the owners of such rights, and hereinafter referred to as "unitized lands". Said exhibits shall be revised by the Unit Operator whenever any change in the Unit Area or ownership of rights renders such change necessary, and the revised exhibits shall be filed with the record of this agreement.

4. UNITIZED SUBSTANCES: All oil, gas, natural gasoline and associated fluid hydrocarbons producible from land subject to this agreement, in any and all sands or horizons, are unitized under the terms of this agreement and hereinafter are called "unitized substances".

5. UNIT OPERATOR: Stanolind Oil and Gas Company is hereby designated as Unit Operator and by signature hereto agrees and consents to accept the duties and obligations of Unit Operator to conduct and manage the operation of said unit area for the discovery and development of unitized substances as hereinafter provided. Hereinafter whenever reference is made to the Unit Operator, such reference is understood to mean the unit operator acting in that capacity and not as an owner of interests in unitized substances, and whenever reference is made to an owner of unitized substances, such a reference shall be understood to include any interests in unitized substances owned by the Unit Operator.

The Unit Operator shall have the right to resign at any time provided that any well drilled hereunder is placed in a satisfactory condition for suspension, or is satisfactorily abandoned under the Federal Oil and Gas Operating Regulations, if on Federal land, and under the laws of the State of New Mexico, and the rules and regulations of the Commission, if on state or patented land, but no Unit Operator shall be relieved from the duties and obligations of Unit Operator for a period of three (3) months after notice of intention to relinquish such duties and obligations has been served by him on all other parties hereto and the Secretary and the Commissioner,

unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of the Unit Operator prior to the date on which relinquishment by or removal of Unit Operator becomes effective. The parties hereto or a duly qualified new Unit Operator may purchase at its then depreciated market value all or any part of the equipment, material, and appurtenances in or upon the land subject to this agreement, owned by the retiring Unit Operator, in its capacity as such operator, or make other arrangements satisfactory to the retiring Unit Operator for the use thereof, provided that no such equipment, material, or appurtenances so selected for purchase shall be removed prior to the effective date of Unit Operator's retirement. Any equipment, material, and appurtenances not so purchased or arranged for as to the use thereof within said time limit may be removed by the retiring Unit Operator at any time within six (6) months after his relinquishment or removal becomes effective, but if not so removed shall become the joint property of the owners of working interest rights in land then subject to this agreement. The termination of any rights as Unit Operator under this agreement shall not of itself terminate any right, title, or interest which the Unit Operator may then have in the unitized substances, but the Unit Operator shall have the right and option in connection with its resignation to reassign or retransfer to its several predecessors in interest all of its interest in the lands and leases severally acquired from them, together with its working interest in the unitized substances, and upon such delivery be discharged from any future liability as a working interest owner hereunder; said reassignments to be effective as to said transferee thereupon, subject, however, to the approval of the Secretary as to transfers of interest in lands of the United States and subject, however, to the approval of the Commissioner as to interests in lands of the State of New Mexico.

6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall discontinue or relinquish his rights as Unit Operator or shall fail to fulfill his duties and obligations as Unit Operator under this agreement, the owners of the majority of the unitized working interests in the participating area on an acreage basis, or the owners of working interests according to their total acreage interest in the unit area until a participating area shall have been established, shall select a new Unit Operator, provided that if the majority of the working interests rights which are at any time qualified to vote in selecting a new Unit Operator are owned by one party to this agreement then a vote of at least two owners of working interests qualified to vote shall be required to select a new operator. Such selections shall not become effective until (a) a Unit Operator so selected shall agree and consent in writing to accept the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Secretary and the Commissioner. In the absence of the selection of an acceptable Unit Operator by the working interest owners within (6) months after notice by Unit Operator of intention to relinquish its rights as Unit Operator, this unit agreement shall automatically terminate.

The Unit Operator shall be subject to removal by the Working Interest Owners in the same manner as herein provided for the selection of a new Unit Operator.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as hereinafter specified, the exclusive right, privilege, and duty of exercising any and all rights of the parties signatory hereto which are necessary or convenient for prospecting for, producing, storing, and disposing of the unitized substances are hereby vested in the Unit Operator and shall be exercised by said Unit Operator as provided in this agreement. Acceptable evidence of title to said rights shall be deposited with the Unit Operator and, together with this agreement, shall constitute and define said Unit Operator's rights, privileges, and obligations in the premises; provided that nothing herein shall be construed to transfer title to any land, or to any operating agreement or leases, it being understood that under and pursuant to this agreement the Unit Operator shall exercise the rights of possession and use vested in the parties hereto only and exclusively for the purposes herein specified. The Unit Operator shall pay all costs and expenses of operations with respect to the unitized land, and no part thereof shall be charged to the Royalty Owners. The method of handling such costs and expenses is left to private arrangement between the Unit Operator and the Working Interest Owners.

The development and operation of land subject to this agreement under the terms hereof shall be deemed full performance by Unit Operator of all obligations for such 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.

7) 8. DRILLING TO DISCOVERY: Within six (6) months from the effective date of this agreement, Unit Operator shall begin operations in the unit area to drill an adequate test well at a location upon the Unit Area to be approved by the Supervisor, if such location is upon lands of the United States, and if upon State lands or patented lands, such location shall be approved by the Commission, and having commenced such operations shall continue such drilling diligently until said well shall have been drilled to a depth not less than 3500 feet unless oil or gas which can be produced in paying quantities is encountered in said well at a lesser depth or unless, at a lesser depth, an igneous or metamorphic formation or some other condition or formation is encountered which would render further drilling inadvisable or impracticable. If said first well, drilled as aforesaid, fails to encounter the unitized substances, Unit Operator or his successor shall thereupon commence within six (6) months after the completion of the former well, and drill, one at a time, additional wells until a productive well is completed to the satisfaction of the Supervisor and Commissioner, or until it is reasonably proved that the unitized land is incapable of producing the unitized substances; provided that the Secretary and Commissioner may grant extension of time for the commencement of any such well; and provided further that nothing herein contained shall preclude any Operator from effectively resigning as provided in Section 5 hereof before any obligation to commence a second or subsequent well accrues hereunder, and be relieved of the obligation to commence such well.

9. PLAN OF DEVELOPMENT AND OPERATION: Within sixty (60) days from completion of a well capable of producing the unitized substances as aforesaid, Unit Operator shall submit for the approval of the Supervisor, the Commissioner, and the Commission an acceptable plan of development for the Unit Area, which plan or a subsequent modification thereof, when so approved, shall constitute the further drilling and operating obligations of Unit Operator. Said plan for further development and operation on like approval may be modified from time to time to meet changed conditions; provided further than in no event shall the Operator under any such plan, or otherwise, be under any obligation to drill any well to any formation that does not afford a fair possibility for encountering the unitized substances in paying quantities. Well drilling operations including well completions, producing practices and well abandonments, shall be in accordance with the Plan of Development and Operation. All operations thereunder shall be subject to the approval of the Supervisor as to wells on federal land and by the Commission for wells on state and private land.

During any period when it shall appear that an acceptable plan of development cannot be adopted because of the inability of the Supervisor, the Commissioner and the Commission to agree upon the terms thereof, the Unit Operator may, in accordance with the applicable regulations referred to in Section 1 hereof, proceed with reasonable diligence to drill other wells to determine the limits of production and to develop the productive portion of the unit area, and may and shall operate all productive wells in conformity with good operating practices, and the conservation principles of this agreement.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a productive well as aforesaid, Unit Operator shall submit for the approval of the Secretary, the Commissioner and the Commission a schedule of lands based on subdivisions of the public land survey then regarded as reasonably proved to be productive of unitized substances in paying quantities; all land in said schedule, when approved, to constitute a participating area effective as of the date of first production. Said schedule shall set forth the percentage acreage interest of each owner of rights in the participating area thereby established. Such percentage acreage interest shall govern the allocation of production from and after the date the participating area becomes effective. With the approval of the Secretary, Commissioner and the Commission, a separate participating area may be established for any separate deposit of unitized substances or for any group of such deposits. The participating area or areas so established shall be enlarged from time to time in like manner and subject to like approval whenever such action appears proper as a result of further drilling operations to include additional land then regarded as reasonably proved to be productive in paying quantities, and a new schedule of percentage acreage interests conformable thereto shall thereupon be fixed. The effective date of any such enlargement shall be the first of the month next following the month in which the well is completed which demonstrates the propriety of the enlargement, and any unitized substances therefore produced from such well shall be allocated to the lease on which the well is drilled. A well shall be deemed completed when equipped and successfully tested for production, all of which shall be done diligently. No land once included in a participating area shall be excluded from such participating area on account of depletion of the unitized substances therefrom, or for any cause save loss of title.

It is the intent of this Section that a participating area shall at all times represent as nearly as possible the area known or reasonably estimated to be productive in paying quantities; but, regardless of any increase in the participating area, nothing herein contained shall be construed as requiring any retroactive apportionment of any sums accrued or paid for production obtained prior to the effective date of increase of the participating area.

Until a participating area or areas has or have been established as herein-provided, or in the absence of agreement at any time between the Unit Operator, the Secretary, the Commissioner, and the Commission as to the proper boundaries of a participating area, the portion of all payments affected by such absence of agreement, except the royalties due the United States and the State of New Mexico, may be impounded in a mutually acceptable bank.

11. DEVELOPMENT OF LANDS OUTSIDE THE PARTICIPATING AREA: Any exploratory wells drilled on any unitized land outside the boundaries of any then existing participating area shall be drilled by the Unit Operator at the cost of the Participating Area Working Interest Owners as may be provided in the separate operating contract herein referred to. If any such well encounters the unitized substances in paying quantities, the said well and the portion of the unitized lands proved thereby to be productive in paying quantities shall be added to the participating area in manner as provided in Section 10 hereof. If said well encounters a producible quantity of the unitized substances, but not in paying quantity, the owner of the operating rights on the tract covered by the well may at his option within 30 days after notice by the Unit Operator take over said well by making reimbursement to the Operator as provided in said operating contract. Otherwise the Unit Operator may continue to operate the well and appropriate the production therefrom to apply upon the cost of drilling, equipping and operating said well; provided, however, that if and when Unit Operator secures reimbursement therefrom for the cost of drilling, equipping and operating the same, Unit Operator may turn the well over to the owner of the operating rights on the tract on which the well is situated upon compensation for the fair market value of the recoverable equipment. If the Operator shall desire to abandon said well, the owner of the operating rights on said tract may take over and operate said well by reimbursing the Unit Operator for the fair market value of the recoverable casing and other well property necessary to operate the well.

If upon thirty (30) days notice by the owner of the operating rights on any unitized tract of land outside the participating area, Unit Operator shall fail or refuse to commence and drill a well for the testing of the productivity of the tract, the owner of the operating rights on said tract may drill said well at his sole cost, risk, and expense, including cost of abandonment, and if said well encounters the unitized substances in paying quantities, the well and the unitized land proved productive in paying quantities thereby shall be added to the then existing participating area and the participating area shall be enlarged upon a basis of financial adjustment of investment costs between the said owner of the operating rights on the well tract and the Working Interest Owners in the former participating area as may be provided by the operating contract, or otherwise by agreement among said parties. In the event that said well encounters the unitized substances in producible quantity but not in paying quantity, and upon determination thereof by the Unit Operator and the Working Interest Owners, the parties so drilling said well may operate and produce the well at their sole cost and risk and expense and for their sole benefit.

Any operations under this section shall be subject to the drilling, producing and conservation requirements of this agreement and of any plan of development then or thereafter in force, and subject to the payment of the rental and royalty required by the applicable leases or contracts on the production from said well.

12. ALLOCATION OF PRODUCTION--ROYALTIES: Except as provided in Section 11, all unitized substances produced under this agreement, except any part thereof used for production and development purposes thereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of land of the participating area, and, for the purpose of determining any benefits that accrue on an acreage basis as a result of operations under this agreement, each such tract shall have allocated to it such percentage of said production as its area bears to the said participating area. Unitized substances produced from any participating area and used in conformity with good operating practice under an approved plan of operation for repressuring or cycling in any participating area shall be free from any royalty charge.

71 If Unit Operator introduces gas obtained from sources other than the unitized substances into any participating area hereunder for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan first approved by the Supervisor, the Commissioner, and the Commission, a like amount of gas may be drawn 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 operation or as may otherwise be consented to by the Supervisor, the Commissioner and the Commission as conforming to good petroleum engineering practice, and provided further that such right of withdrawal shall terminate on the termination of the unit.

Except as otherwise herein provided, royalties shall be paid or delivered as provided by existing leases or contracts, at the lease or contract rate upon the unitized substances allocated to the lease or tract. Settlement shall be made on or before the 20th day of each month for the unitized substances produced during the preceding calendar month. Such royalties shall be paid by the party operating the wells, but nothing herein shall operate to relieve the lessees, or any of them, of their obligation to pay rentals and royalties under the terms of their respective leases.

The right is hereby secured to the United States and the State of New Mexico under existing or future laws and regulations to elect to take their respective royalty shares in kind or value.

2-1
full of
each
full of
21
13. GOVERNMENT ROYALTIES: Royalty due the United States on account of federal lands subject to this agreement within the Unit Area shall be computed as provided in the operating regulations; 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 all the unitized lands within the participating area were a single consolidated lease. During the period of the National Emergency proclaimed by the President on May (27), 1941, Proclamation No. 2487 (55 Stat. 1647) as to any new oil or gas deposit discovered by virtue of a well or wells drilled under this agreement, the royalty obligation to the United States shall be fixed for a period of ten years after such discovery at a flat royalty rate of 12 1/2% of the amount or value of the production allocable to said leases from such new deposit.

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14. RENTALS: Each lessee shall be responsible for and shall pay all rentals of whatsoever kind on his respective leases. Rental for land of the United States subject to this agreement at the rate specified in the respective leases from the United States shall be paid, suspended, or reduced as may be determined by the Secretary pursuant to applicable law and regulations. The Unit Operator may apply the government's allocated royalty share of the unitized substances to repayment for government rentals advanced hereunder to the same extent as otherwise allowed in the case of an individual government lease.

15. CONSERVATION: Operations and production of unitized substances shall be conducted so as to provide for the most economical and efficient recovery of unitized substances to the end that maximum ultimate yield may be obtained without waste. Production of unitized substances shall at all times be without waste as defined by or pursuant to state or federal law.

16. DRAINAGE: Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or, with the approval of the Secretary as to federal interests and of the Commissioner as to state interests, and at the election of the Unit Operator as to private interests, pay the Royalty Owners a fair and reasonable compensatory royalty, as determined by the Supervisor as to federal interests, and the Commissioner as to state interests subject to this agreement, and by agreement between the Unit Operator and royalty owners, as to private interests.

17. LEASES AND CONTRACTS CONFORMED TO AGREEMENT: The parties hereto or consenting hereto holding interests in leases embracing unitized land of the United States or of the State of New Mexico consent that the Secretary and Commissioner, respectively, may, and said Secretary and Commissioner, by their approval of this agreement, do hereby establish, alter, change or revoke the drilling, producing, and royalty requirements of such leases and the regulations in respect thereto, to conform said requirements to the provisions of this agreement, but otherwise the terms and conditions of said leases shall remain in full force and effect.

Owners and lessors of privately owned lands or of interests therein, including royalty interests, and including their heirs, executors, administrators, successors and assigns, by subscribing or consenting to this agreement, in person or by attorney in fact, do hereby severally agree that the respective leases covering their several lands or interests therein, may be and remain in force and effect for the respective primary terms therein stated, and so long thereafter as oil or gas may be produced therefrom in quantities sufficient to justify the cost of production; and also in the event that any of the land embraced in any such lease is during the primary term of such lease included within a participating area duly selected and approved under this unit plan of development, so that each owner becomes entitled to a share in the proceeds of production from the participating area, payable at the respective lease rates on the production allocated on an acreage basis to the portion of the lease within the participating area, then each such lease is hereby extended, without further delay rental obligation, as to the land embraced therein which is so included in such participating area, for the full term of this unit plan as herein stated.

The Secretary, Commissioner and, except as otherwise provided in the preceding paragraph of this Section, all parties hereto further determine, agree and consent that during the effective life of this agreement, drilling and producing operations performed by the Unit Operator upon any unitized land will be accepted and deemed to be operations under and for the benefit of all unitized leases subject hereto; that no such lease shall be deemed to expire by reason of failure to produce wells situated on land therein embraced; that if a discovery of a valuable deposit of unitized substances is made anywhere on the unitized land, each such lease in effect on or after the date of such discovery shall be deemed to continue in force and effect as to land in the unit area, as long as unitized substances are produced anywhere on unitized land in paying quantity; and the suspension of all operations and production on the unitized land pursuant to direction or consent of said Secretary and Commissioner shall be deemed to constitute such suspension pursuant to such direction or consent with respect to each such lease, and that no lease shall expire on account of such suspension, as to land in the unit area.

The parties hereto or consenting hereto, holding interests in leases subject to this agreement embracing lands other than those of the United States or of the State of New Mexico or holding interests in any other agreements that involve oil and gas rights in lands in the Unit Area, consent and agree, to the extent of their respective interests, that all such leases and agreements shall conform to the provisions of this agreement.

18. COVENANTS RUN WITH LAND: The covenants herein run with the land until this agreement terminates, and any grant, transfer or lease 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, lessee, or other successor in interest and as to federal land, shall be subject to approval by the Secretary, and as to lands of the State of New Mexico, shall be subject to the approval of the Commissioner. No transfer of any interest in and to any of the unitized lands or affecting the production therefrom shall be binding upon the Unit Operator until the first day of the next calendar month after the Unit Operator has been furnished with an original, photostatic or certified copy of the instrument of transfer.

19. EFFECTIVE DATE AND TERM: This agreement shall become effective on the first day of the calendar month next following approval by the Secretary and the Commissioner, provided however that nothing herein shall be construed to waive or limit the right of the Commission to approve this agreement pursuant to applicable state law. Except as otherwise provided by the second paragraph of Section 17 hereof, this agreement shall terminate on June 30, 1949, unless (1) such date of expiration is extended by the Secretary and the Commissioner; or (2) a discovery of unitized substances in paying quantities has been made on the Unit Area, in which case this agreement shall remain in effect as long as unitized substances can be produced from the Unit Area in paying quantities; or (3) it is proved at an earlier date that the Unit Area is incapable of production of unitized substances in paying quantities, and with approval of the Secretary and the Commissioner, notice of termination is given by Unit Operator to all parties in interest by letter addressed to them at their last known places of address; or (4) it is terminated as provided in Section 6 hereof; provided that this agreement may be terminated at any time with the consent of the owners of 75%, on an acreage basis, of the Working Interest Owners signatory hereto with the approval of the Secretary and the Commissioner.

20. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION: All production and the disposal thereof, shall be in conformity with allocations, allotments and quotas made or fixed by the Commission under any State Statute; provided however that the Secretary is vested with authority pursuant to the amendatory acts of Congress of March 4, 1931, and August 21, 1935, supra, to alter or modify from time to time in his discretion the rate of prospecting and development, and, within the limits made or fixed by the Commission, to modify the quantity and rate of production under this agreement, 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; provided further that no such alteration or modification shall be effective as to any lands of the State of New Mexico as to the rate of prospecting and development 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 Commission.

21. FORCE MAJEURE: Failure or delay in the performance of the terms, conditions, and covenants hereof shall not cause this contract to expire, terminate, or be forfeited in whole or in part, nor subject the Unit Operator or other party otherwise liable therefor to liability in damages, to the extent and so long as such prompt performance is hindered, delayed or prevented by any federal or state law, executive order, rule or regulation, or to the extent and so long as such performance is hindered, delayed, or prevented by an act of God, of the public enemy, governmental interference or restraint, inability to obtain material or equipment, weather conditions, labor disputes, failure of transportation, or other cause, whether similar or dissimilar, beyond the control of the party in interest.

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 for delay or failure in whole or in part to comply therewith to the extent that said Unit Operator, Working Interest Owners or any of them are hindered, delayed, or prevented from complying therewith by reason of failure of Unit Operator to obtain the joint consent of the representatives of the United States and the representatives of the State of New Mexico in and about any matter or thing concerning which it is required herein that such joint consent be obtained. The parties hereto and consenting hereto, including the Commission agree that all powers and authority vested in the Commission in and by any provision of this contract are vested in the 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. NON-DISCRIMINATION: The Unit Operator expressly agrees that in any and all operations conducted hereunder, it shall not discriminate against any employee or applicant for employment because of race, creed, color, or national origin, and shall require an identical provision to be included in all subcontracts.

24. SUBSEQUENT JOINDER: Any person owning rights in the unitized substances within the unit area who does not commit such rights hereto prior to the effective date hereof, may thereafter become parties hereto by subscribing this agreement, and if such parties are working interest owners they shall also subscribe the operating contract and comply with all terms and conditions therein set forth.

25. COUNTERPARTS: This agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties, owning or claiming an interest in the lands affected hereby.

IN WITNESS WHEREOF the parties have hereunto set their hands and have set opposite their respective names the date of execution.

UNIT OPERATOR

ATTEST:

STANOLIND OIL AND GAS COMPANY

Secretary

By

Vice-President

WORKING INTEREST OWNERS

ATTEST:

Secretary

STANOLIND OIL AND GAS COMPANY

By _____
Vice-President

ATTEST:

Secretary

SNOWDEN AND McSWEENEY, INC.

By _____
Vice-President

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Willie Stell Stancliff

William W. Brunson

Mabel E. Brunson

G. C. Brunson

George B. McCamey

E. H. Pipkin

Neil P. Wills

STATE OF OKLAHOMA {
 { SS:
COUNTY OF TULSA {

On this 25th day of May, A. D., 1944, before me appeared E. F. BULLARD, to me personally known, who, being by me duly sworn, did say that he is the Vice President of STANOLIND OIL AND GAS COMPANY, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed on behalf of said corporation as Unit Operator and as a Working Interest Owner by authority of its Board of Directors, and the said E. F. BULLARD acknowledged said instrument to be the free act and deed of said corporation as Unit Operator and as a Working Interest Owner therein.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.

My commission expires _____

Notary Public

STATE OF _____ {
 { SS:
COUNTY OF _____ {

On this _____ day of _____, A. D., 1944, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is the Vice President of SNOWDEN AND McSWEENEY, INC., and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.

My commission expires _____

Notary Public

STATE OF _____ {
 { SS:
COUNTY OF _____ {

On this _____ day of _____, A. D., 1944, before me personally appeared _____

(husband and wife) (a single person) to me known to be the person _____ described in and who executed the foregoing instrument and acknowledged that he (they) executed the same as his (their) free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.

My commission expires _____

Notary Public

STATE OF _____

SS:

COUNTY OF _____

On this _____ day of _____, A. D., 1944, before me personally
appeared _____

(husband and wife) (a single person) to me known to be the person _____ described in and
who executed the foregoing instrument and acknowledged that he (they) executed the
same as his (their) free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal
the day and year first above written.

My commission expires _____

Notary Public

STATE OF _____

SS:

COUNTY OF _____

On this _____ day of _____, A. D., 1944, before me personally
appeared _____

(husband and wife) (a single person) to me known to be the person _____ described in and
who executed the foregoing instrument and acknowledged that he (they) executed the
same as his (their) free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal
the day and year first above written.

My commission expires _____

Notary Public

SECTION	SERIAL NO.	DESCRIPTION	LESSEE OR APPLICANT	ASSIGNEE	ACRES
<u>TOWNSHIP 12 SOUTH, RANGE 18 EAST</u>					
4	USA 060790	All	G. C. Brunson		577.48
5	USA 060790	E $\frac{1}{2}$ NE $\frac{1}{4}$	G. C. Brunson		65.70
5	USA 060565	Lot 2; SW $\frac{1}{4}$ NE $\frac{1}{4}$; SE $\frac{1}{4}$	N. J. Steinberger		226.21
8	State	NE $\frac{1}{4}$ NE $\frac{1}{4}$; NE $\frac{1}{4}$ SE $\frac{1}{4}$	Willie Stell Stancliff		80
8	USA 060565	SE $\frac{1}{4}$ NE $\frac{1}{4}$; SE $\frac{1}{4}$ SE $\frac{1}{4}$	N. J. Steinberger		80
9	State	N $\frac{1}{2}$ SW $\frac{1}{4}$; NW $\frac{1}{4}$ SE $\frac{1}{4}$; NW $\frac{1}{4}$ NE $\frac{1}{4}$; N $\frac{1}{2}$ NW $\frac{1}{4}$	Geo. B. McCamey	Willie Stell Stancliff	240
9	USA 060753	SE $\frac{1}{4}$ NW $\frac{1}{4}$; S $\frac{1}{2}$ NE $\frac{1}{4}$; S $\frac{1}{2}$ SE $\frac{1}{4}$	Willie Stell Stancliff		200
9	USA 061211	SW $\frac{1}{4}$ NW $\frac{1}{4}$; S $\frac{1}{2}$ SW $\frac{1}{4}$	Willie Stell Stancliff		120
9	State	NE $\frac{1}{4}$ NE $\frac{1}{4}$	Neil H. Wills		40
9	State	NE $\frac{1}{4}$ SE $\frac{1}{4}$	Alec Lunvall		40
10	State	N $\frac{1}{2}$ N $\frac{1}{2}$	Neil H. Wills	Snowden & McSweeney	160
10	USA 060753	S $\frac{1}{2}$ N $\frac{1}{2}$; N $\frac{1}{2}$ S $\frac{1}{2}$	Willie Stell Stancliff		320
10	State	S $\frac{1}{2}$ S $\frac{1}{2}$	Neil H. Wills		160
11	USA 060753	N $\frac{1}{2}$ NW $\frac{1}{4}$; SE $\frac{1}{4}$ NW $\frac{1}{4}$; NE $\frac{1}{4}$ SW $\frac{1}{4}$; SW $\frac{1}{4}$ NE $\frac{1}{4}$; N $\frac{1}{2}$ SE $\frac{1}{4}$	Willie Stell Stancliff		280
11	State	SE $\frac{1}{4}$ NE $\frac{1}{4}$; S $\frac{1}{2}$ SW $\frac{1}{4}$; S $\frac{1}{2}$ SE $\frac{1}{4}$	Willie Stell Stancliff		200
11	Geo. M. Slaughter et ux	N $\frac{1}{2}$ NE $\frac{1}{4}$	T. A. Stancliff	Willie Stell Stancliff	80
11	State	SW $\frac{1}{4}$ NW $\frac{1}{4}$	J. T. Craven		40
11	State	NW $\frac{1}{4}$ SW $\frac{1}{4}$	Eva B. Thoenix		40
12	T. H. McKnight et ux	W $\frac{1}{2}$ W $\frac{1}{2}$	T. A. Stancliff	Willie Stell Stancliff	160
12	State	NW $\frac{1}{4}$ NE $\frac{1}{4}$; NE $\frac{1}{4}$ NW $\frac{1}{4}$; E $\frac{1}{2}$ SW $\frac{1}{4}$	Willie Stell Stancliff		160
12	USA 061525	SW $\frac{1}{4}$ NE $\frac{1}{4}$	E. H. Pipkin		40
12	USA 060754	E $\frac{1}{2}$ NE $\frac{1}{4}$; SE $\frac{1}{4}$ NW $\frac{1}{4}$; SE $\frac{1}{4}$	W. W. Brunson		280
13	USA 060754	S $\frac{1}{2}$; S $\frac{1}{2}$ NE $\frac{1}{4}$; NE $\frac{1}{4}$ NW $\frac{1}{4}$	W. W. Brunson		440
13	State	N $\frac{1}{2}$ NE $\frac{1}{4}$; SE $\frac{1}{4}$ NW $\frac{1}{4}$	Willie Stell Stancliff		120
13	T. H. McKnight et ux	W $\frac{1}{2}$ NW $\frac{1}{4}$	T. A. Stancliff	Willie Stell Stancliff	80
14	State	W $\frac{1}{2}$ NW $\frac{1}{4}$; NW $\frac{1}{4}$ SW $\frac{1}{4}$; SE $\frac{1}{4}$ SW $\frac{1}{4}$; S $\frac{1}{2}$ SE $\frac{1}{4}$	Geo. B. McCamey	Willie Stell Stancliff	240
14	USA 060753	NE $\frac{1}{4}$; N $\frac{1}{2}$ SE $\frac{1}{4}$; E $\frac{1}{2}$ NW $\frac{1}{4}$; NE $\frac{1}{4}$ SW $\frac{1}{4}$; SW $\frac{1}{4}$ SW $\frac{1}{4}$	Willie Stell Stancliff		400
15	USA 060753	NE $\frac{1}{4}$; N $\frac{1}{2}$ SE $\frac{1}{4}$; W $\frac{1}{2}$ NW $\frac{1}{4}$; NW $\frac{1}{4}$ SW $\frac{1}{4}$	Willie Stell Stancliff		360
15	State	E $\frac{1}{2}$ NW $\frac{1}{4}$; NE $\frac{1}{4}$ SW $\frac{1}{4}$	Willie Stell Stancliff		120
15	State	S $\frac{1}{2}$ SW $\frac{1}{4}$ S $\frac{1}{2}$ SE $\frac{1}{4}$	Geo. B. McCamey	Willie Stell Stancliff	160
16	State	SW $\frac{1}{4}$ NE $\frac{1}{4}$	Neil H. Wills		40
16	State	N $\frac{1}{2}$ NE $\frac{1}{4}$; SE $\frac{1}{4}$ NE $\frac{1}{4}$; SE $\frac{1}{4}$; E $\frac{1}{2}$ W $\frac{1}{2}$	Geo. B. McCamey	Willie Stell Stancliff	440

<u>SECTION</u>	<u>SERIAL NO.</u>	<u>DESCRIPTION</u>	<u>LESSEE OR APPLICANT</u>	<u>ASSIGNEE</u>	<u>ACRES</u>
<u>TOWNSHIP 12 SOUTH, RANGE 18 EAST</u>					
21	USA 060754	W $\frac{1}{2}$ NE $\frac{1}{4}$	W. W. Brunson		80
21	Geo. M. Slaughter et ux	E $\frac{1}{2}$ NE $\frac{1}{4}$; N $\frac{1}{2}$ SE $\frac{1}{4}$; SW $\frac{1}{4}$ SE $\frac{1}{4}$	T. A. Stancliff	Willie Stell Stancliff	200
21	State	SE $\frac{1}{4}$ SE $\frac{1}{4}$	Geo. B. McCamey	Willie Stell Stancliff	40
22	USA 060753	N $\frac{1}{2}$; NW $\frac{1}{4}$ SW $\frac{1}{4}$; S $\frac{1}{2}$ S $\frac{1}{2}$	Willie Stell Stancliff		520
22	State	NE $\frac{1}{4}$ SW $\frac{1}{4}$; N $\frac{1}{2}$ SE $\frac{1}{4}$	Geo. B. McCamey	Willie Stell Stancliff	120
23	USA 060754	E $\frac{1}{2}$; E $\frac{1}{2}$ NW $\frac{1}{4}$; NW $\frac{1}{4}$ SW $\frac{1}{4}$; SE $\frac{1}{4}$ SW $\frac{1}{4}$	W. W. Brunson		480
23	State	W $\frac{1}{2}$ NW $\frac{1}{4}$; NE $\frac{1}{4}$ SW $\frac{1}{4}$	Geo. B. McCamey	Willie Stell Stancliff	120
23	State	SW $\frac{1}{4}$ SW $\frac{1}{4}$	Willie Stell Stancliff		40
24	USA 060754	W $\frac{1}{2}$ NW $\frac{1}{4}$	W. W. Brunson		80
24	T. J. McKnight et ux	W $\frac{1}{2}$ SW $\frac{1}{4}$	T. A. Stancliff	Willie Stell Stancliff	80
24	State	E $\frac{1}{2}$ W $\frac{1}{2}$	Willie Stell Stancliff		160
26	USA 060754	E $\frac{1}{2}$; E $\frac{1}{2}$ W $\frac{1}{2}$; W $\frac{1}{2}$ SW $\frac{1}{4}$	W. W. Brunson		560
26	State	W $\frac{1}{2}$ NW $\frac{1}{4}$	Willie Stell Stancliff		80
27	USA 060753	N $\frac{1}{2}$ N $\frac{1}{2}$; S $\frac{1}{2}$ NW $\frac{1}{4}$; N $\frac{1}{2}$ SW $\frac{1}{4}$; SW $\frac{1}{4}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ SE $\frac{1}{4}$	Willie Stell Stancliff		400
27	USA 060754	S $\frac{1}{2}$ S $\frac{1}{2}$; SE $\frac{1}{4}$ NE $\frac{1}{4}$; NE $\frac{1}{4}$ SE $\frac{1}{4}$	W. W. Brunson		240
28	State	NE $\frac{1}{4}$ NE $\frac{1}{4}$; S $\frac{1}{2}$ NE $\frac{1}{4}$; SE $\frac{1}{4}$	Geo. B. McCamey	Willie Stell Stancliff	280
28	Geo. M. Slaughter et ux	NW $\frac{1}{4}$ NE $\frac{1}{4}$	Open		40
34	Geo. M. Slaughter et ux	N $\frac{1}{2}$	Willie Stell Stancliff		320
35	USA 061525	N $\frac{1}{2}$	E. H. Pipkin		320
Total					20,471.33

RECAPITULATION:

Federal Land	10,718.79 Acres
State Land	5,312.54 Acres
Patented Land	4,440.00 Acres

Total 20,471.33 Acres

* 1/8 Mineral interest owned by Picacho Royalties Co.
1/2 Mineral interest owned by William G. Kelsey single

C O N S E N T

In consideration of the execution of the Picacho Unit Agreement, Lincoln County, New Mexico, in form approved by the Secretary of the Interior, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit area therein defined, approve and adopt the terms of said Unit Agreement as applicable to said several lands and interests, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the term of said Unit Plan; agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

Executed this _____ day of _____, A. D., 1944.

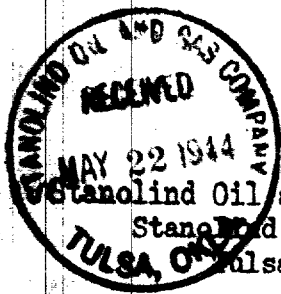
STATE OF _____
COUNTY OF _____

|
| SS:
|

On this _____ day of _____, A. D., 1944, before me personally appeared _____

(husband and wife) (a single person) to me known to be the person described in and who executed the foregoing instrument and acknowledged that he (they) executed the same as his (their) free act and deed.
IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.
My commission expires _____

11-1-9
#1
Copy
let



UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON 25, D. C.

MAY 18 1944

Gentlemen:

Attached is one copy of a draft of the proposed Picacho unit agreement for certain land in Lincoln County, New Mexico, submitted in triplicate with a letter dated February 18 by Mr. R. E. Nelson, supervisor of unitization for your company. Mr. Nelson requested approval of this proposed agreement as to form in order that your company may determine its future procedure in the proposed unit area.

The text of the proposed agreement has been reviewed and found to constitute a type of agreement properly subject to approval under the unitization provisions of the Mineral Leasing Act.

Very truly yours,

Oscar L. Chapman
Assistant Secretary.

6/23
Enclosure 568

STANOLIND OIL AND GAS COMPANY

STANOLIND BUILDING

TULSA, OKLAHOMA

LAND DEPARTMENT

G. B. JENKINSON, JR.
MANAGER

W. T. SMITH
HEAD OF LEASING DEPARTMENT

September 19, 1945

Re: Picacho Unit Agreement
Lincoln County, New Mexico

The Honorable Oil Conservation Commission of the
State of New Mexico
Santa Fe, New Mexico

Gentlemen:

Under date of August 28, 1945, we forwarded to you Resignation of Operator on Picacho Unit Agreement, Lincoln County, New Mexico. This resignation contained a misstatement respecting the location of the test well, therefore we are enclosing a corrected form of our resignation of operator. Will you please substitute this corrected notice for the original.

We are also enclosing, in order that may complete your records, our notice of Dissolution of Picacho Unit Agreement, approval thereof by the Commissioner of Public Lands of New Mexico and of the Secretary of the Interior of the United States is being asked, as provided by the terms of the unit agreement.

Yours very truly,

STANOLIND OIL AND GAS COMPANY



E. C. McCallum

EWV:MH

Encl.

August 28, 1945

Re: Resignation of Operator
Pisache Unit Agreement
Lincoln County, New Mexico

The Honorable The Secretary of the Interior of the United States
The Honorable Commissioner of Public Lands of the State of New Mexico
The Honorable Oil Conservation Commission of the State of New Mexico

Gentlemen:

Stanolind Oil and Gas Company, Unit Operator under the above entitled unit agreement, begs to represent that under Section 8 of said unit agreement Stanolind Oil and Gas Company commenced a well as provided therein, and drilled said well to a depth of 2,841 feet, at which depth your operator encountered igneous formation, to-wit, granite of such character and situation as to render further drilling wholly impracticable and inadvisable. Drilling operations ceased on the 13th day of July, 1945.

Therefore pursuant to its rights set forth in Sections 5 and 8 of said unit agreement, Stanolind Oil and Gas Company, as Unit Operator, hereby respectfully resigns.

The undersigned hereby states that said well is satisfactorily abandoned in conformity with the State Oil and Gas Operating Regulations, it being located on lands of the State of New Mexico.

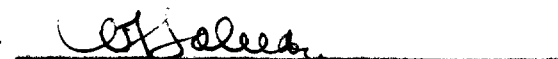
Respectfully submitted,

ATTEST:

STANOLIND OIL AND GAS COMPANY


Assistant Secretary

By


Vice President

DISSOLUTION OF UNIT AGREEMENT

STANOLIND OIL AND GAS COMPANY, a corporation, and NEIL H. WILLS, owners of all of the working interest under the Piascho Unit Agreement, covering lands in Lincoln County, New Mexico, do hereby dissolve and terminate the said unit agreement, and do hereby respectfully request the approval of such dissolution by The Honorable The Secretary of the Interior of the United States and The Honorable Commissioner of Public Lands of the State of New Mexico. Dissolution is effected under and pursuant to Subdivision (4) of Sec. 19 of said unit agreement. In support thereof your applicants show and represent that within the time limited by Sec. 8 of said unit agreement Stanolind Oil and Gas Company, as Unit Operator, commenced a test well for oil and gas upon lands of the State of New Mexico within said unit area and drilled said well to a depth of 2,841 feet, at which depth an igneous formation, namely, granite, was discovered in such quantity and situation as to clearly render further prosecution of drilling operations upon said well clearly inadvisable. The showing clearly demonstrates and proves that oil or gas cannot be obtained in said test well within the depth of 3,500 feet or at any greater depth, and that the unit area as a whole is incapable of producing the unitized substances in paying quantities. Neither of said undersigned working interest owners feels justified in going ahead with further development, and since the cessation of drilling upon said unit area on July 13, 1945, said parties have contacted all the royalty owners who were signatory to said unit agreement, including all of the principal royalty owners having lands committed thereto.

Having been unable to find any other persons who were willing to assume the obligations of Unit Operator under said unit agreement or to take over and carry on operations as provided therein, we therefore respectfully request that official consent be given to dissolve said unit agreement.

Respectfully submitted,

STANOLIND OIL AND GAS COMPANY

By W. J. Salcedo
Vice President

Neil H. Wills
Neil H. Wills

ATTEST:

[Signature]
Assistant Secretary

Stamp: 9/25/45
OK
Hum
end

STATE OF OKLAHOMA

SS:

COUNTY OF TULSA

M. C. HOFFMAN, of lawful age, being first duly sworn, on oath deposes and says that he is Superintendent of the Producing Department of Stanolind Oil and Gas Company, Unit Operator and Working Interest Owner under the Picocho Unit Agreement; that he has read the within and foregoing instrument and knows the matters and things therein set forth and states that all representations of fact made therein are true to the best of his knowledge, information, and belief.

M. C. Hoffman

(Hew)

Subscribed and sworn to before me this 28th day of August, A. D., 1945.

My commission expires My commission expires March 19, 1949

Elaine Foamy

Notary Public

CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

July 14, 1945

Mr. Foster Morrell, Acting Supervisor
Oil and Gas Operations
U. S. Geological Survey
P. O. Box 997
Roswell, New Mexico

Re: Case 54 - Order 570 - Picacho Unit Agreement.
Stanolind State No. 1, NWNW 12-12S-18E.

Dear Mr. Morrell:

Reference is made to your letter of July 10. I have examined Section 8 of the Picacho Unit Agreement but do not find any provision wherein the Commission is to decide that metamorphic formations have been encountered before reaching the 3500 ft. limit, making it useless to proceed further. If, however, the unit operator has definitely determined the fact that "an igneous or metamorphic formation or some other condition or formation is encountered which would render further drilling inadvisable or impracticable", then the plugging is a matter of routine procedure through the Oil and Gas Inspector, Mr. Roy Yarbrough, Hobbs. However, all Mr. Yarbrough passes upon is whether the plugging program is a proper one as a plugging program and is properly carried out but I do not think either he or the Commission decides that it is unnecessary to proceed further with the well. Those decisions are made by the operator. If his decision is not warranted by the facts, then that would be a matter between him and those committed to the unit agreement.

Very truly yours,

Chief Clerk & Legal Adviser.

CEL:MS

UNITED STATES
DEPARTMENT OF THE INTERIOR



GEOLOGICAL SURVEY

P. O. Box 997
Roswell, New Mexico
July 10, 1945

Case 54 - Order 570

New Mexico Oil Conservation Commission,
Post Office Box 871,
Santa Fe, New Mexico.

Gentlemen:

I am enclosing for your information copy of my letter of July 9 to Stanolind Oil and Gas Company regarding No. 1 State well drilled in the center of the NW $\frac{1}{4}$ sec. 12, T. 12 S., R. 18 E. under the Picacho Unit Agreement, Lincoln County, New Mexico, I-Sec. 387.

The representatives of the Stanolind Oil and Gas Company, unit operator, alleged that igneous formation was encountered in the well at a depth of 2543, that such formation was penetrated to the present depth of 2841, and that further drilling was considered inadvisable. The unit operator was uncertain as to who was authorized to determine when further drilling was deemed inadvisable or impracticable above the depth of 3500 feet specified in the first sentence of paragraph 8 of the unit agreement. To insure adequate consideration by all parties involved the representatives of the unit operator stated that it was desired that concurrence in the unit operator's opinion that further drilling was inadvisable below the present depth of 2841 feet be obtained from both the State and Federal authorities.

After an examination of the bottom hole samples and the correlation of available information, we furnished the Stanolind Oil and Gas Company with our concurrence that further drilling in the No. 1 State well appeared inadvisable and that accordingly compliance had been made with the drilling requirement in the first sentence of paragraph 8 of the unit agreement. This letter was given with the understanding that concurrence in this opinion be obtained from proper State officials prior to complete cessation of drilling operations and as the well is on State land that approval be obtained from the New Mexico Oil Conservation Commission before the actual plugging of the well.

cc Stanolind Oil & Gas Co.
Box 591, Tulsa, Oklahoma.

Stanolind Oil & Gas Co.
Midland, Texas.

Very truly yours,

Foster Morrell

FOSTER MORRELL, Acting
Supervisor, Oil and Gas Operations.

UNITED STATES
DEPARTMENT OF THE INTERIOR



GEOLOGICAL SURVEY

P. O. Box 997
Roswell, New Mexico
July 10, 1945

Case 54 - Order 570

New Mexico Oil Conservation Commission,
Post Office Box 871,
Santa Fe, New Mexico.

Gentlemen:

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cc Stanolind Oil & Gas Co.
Box 591, Tulsa, Oklahoma.

Stanolind Oil & Gas Co.
Midland, Texas.

Very truly yours,

Foster Morrell

FOSTER MORRELL, Acting
Supervisor, Oil and Gas Operations.

United States
DEPARTMENT OF THE INTERIOR
Geological Survey

P. O. Box 997
Roswell, New Mexico
July 9, 1945

Stanolind Oil and Gas Company
P. O. Box 591
Tulsa, Oklahoma

Gentlemen:

Reference is made to the Stanolind Oil and Gas Company No. 1 State well, drilled to a total depth of 2841 feet in the C NW 1/4 sec. 10, T. 12 S., R. 18 E., under the Picacho Unit Agreement, Lincoln County, New Mexico, I-Sec. No. 387, which was approved by the Commissioner of Public Lands of the State of New Mexico on August 4, 1944, and by the Assistant Secretary of the Interior on August 19, 1944.

Representatives of your Company allege that igneous formation was encountered in the drilling of this well at a total depth of 2543 feet and that such formation was penetrated to the present depth of 2841 feet, which renders further drilling inadvisable.

An examination of the bottomhole samples and the correlation of available information on the Huehle Oil and Refining Company well No. 1-M State, in sec. 35, T. 14 S., R. 17 E., together with other pertinent sub-surface data in this area, indicates to this office that igneous formation has been encountered, rendering further drilling inadvisable, and that you have accordingly complied with the requirement in the first sentence of paragraph 8 of the unit agreement.

Very truly yours,

Foster Morrell

FOSTER MORRELL, Acting Supervisor
Oil and Gas Operations

Resignation - Stanolind - 12-41

August 28, 1945

Re: Resignation of Operator
Pisacho Unit Agreement
Lincoln County, New Mexico

The Honorable The Secretary of the Interior of the United States
The Honorable Commissioner of Public Lands of the State of New Mexico
The Honorable Oil Conservation Commission of the State of New Mexico

Gentlemen:

Stanolind Oil and Gas Company, Unit Operator under the above entitled unit agreement, begs to represent that under Section 8 of said unit agreement Stanolind Oil and Gas Company commenced a well as provided therein, and drilled said well to a depth of 2,841 feet, at which depth your operator encountered igneous formation, to-wit, granite of such character and situation as to render further drilling wholly impracticable and inadvisable. Drilling operations ceased on the 13th day of July, 1945.

Therefore pursuant to its rights set forth in Sections 5 and 8 of said unit agreement, Stanolind Oil and Gas Company, as Unit Operator, hereby respectfully resigns.

The undersigned hereby states that said well is satisfactorily abandoned in conformity with the Federal Oil and Gas Operating Regulations, it being located on lands of the United States.

Respectfully submitted,

ATTEST:

STANOLIND OIL AND GAS COMPANY

[Signature]
Assistant Secretary

BY

[Signature]
Vice President

July 9, 1946

Stanolind Oil and Gas Company
Tulsa, Oklahoma

Mr. Foster Morell
U. S. Geological Survey
Roswell, New Mexico

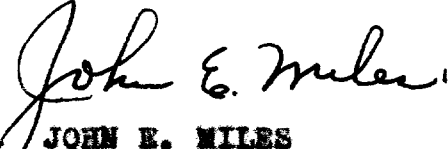
New Mexico Oil Conservation Commission
Santa Fe, New Mexico

Re: Picacho Unit Agreement

Gentlemen:

The undersigned Commissioner of Public Lands, having heretofore been provided with official information that Picacho Unit well in the NW $\frac{1}{4}$ of the NW $\frac{1}{4}$ of Section 10, Township 12 South, Range 18 East, N.M.P.M., Lincoln County, has been abandoned as a result of encountering no oil or gas, and this office having received copy of New Mexico Oil Conservation Commission plugging order, approved April 4, 1946, following Form C-102 approved March 23, 1946, converting to a water well, as proof that said dry hole has been properly plugged and abandoned for oil and gas purposes; therefore, the Commissioner of Public Lands under authority of the 4th subdivision of Section 19 of the original Picacho agreement does hereby officially consent to dissolution of said agreement.

Very truly yours,


JOHN E. MILES
Commissioner of Public Lands

CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

September 13, 1944

R. E. Nelson, Jr., Esquire
Stanolind Oil and Gas Company
Stanolind Building
Tulsa, Oklahoma

Re: Picacho Unit Agreement, Case No. 54, Order No. 570.

My dear Mr. Nelson:

Please be good enough to send half a dozen or so of the copies of the agreement in the above captioned matter as it was finally executed. The Commission has the one original which you sent for the case file prior to the effective date of the order of approval. I surmise that you may have had the executed agreement mimeographed.

Kindest personal regards.

Very truly yours,

John M. Kelly
Director

By

Chief Clerk & Legal Adviser

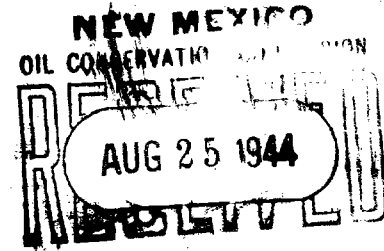
CEL:MS

STANOLIND OIL AND GAS COMPANY

STANOLIND BUILDING
TULSA, OKLAHOMA

August 22, 1944

File: REN-53-54.7



Re: Case No. 54
Your Order No. 570
Picacho Unit Agreement
Lincoln County, New Mexico

Mr. John M. Kelly, Secretary
Oil Conservation Commission
Santa Fe, New Mexico

Dear Mr. Kelly:

I am pleased to advise that the Picacho Unit Agreement was approved on August 19, 1944, by Oscar L. Chapman, Assistant Secretary of the Interior. Counterpart No. 3 of the Unit Agreement is attached hereto for your file.

Very truly yours,

R. E. Nelson, Jr.

A handwritten signature in dark ink, appearing to be "R. E. Nelson, Jr.", is written over the typed name. The signature is stylized with large loops.

REN:ef
Encl.

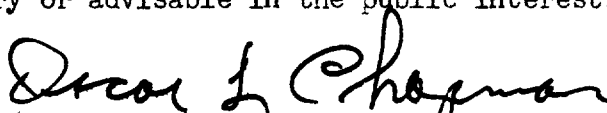
I-Sec.No.387

APPROVAL - CERTIFICATION - DETERMINATION

Pursuant to the statutory authority in the Secretary of the Interior, under the act approved March 4, 1931, 46 Stat. 1523, and the act approved August 21, 1935, 49 Stat. 674, amending the act approved February 25, 1920, 41 Stat. 437; 30 U. S. C. 226, 184, and 189, in order to secure the proper protection of the public interest, I, OSCAR L. CHAPMAN, Assistant Secretary of the Interior, this 4th day of August, 1944, hereby take the following action:

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

B. Determine and certify that the plan of development and operation contemplated in said agreement is for the purpose of more properly conserving the oil or gas resources of said unit area and is necessary or advisable in the public interest.


Assistant Secretary of the Interior.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 54

ORDER NO. 570

THE APPLICATION OF THE STANLEY OIL AND
GAS COMPANY FOR AN ORDER OF APPROVAL OF THE
PICACHO UNIT AGREEMENT, LINCOLN COUNTY, NEW
MEXICO WITHIN TOWNSHIP 11 SOUTH, RANGE 18 EAST
AND TOWNSHIP 12 SOUTH, RANGE 18 EAST, N.M.P.M.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at the office A. ., August 4, 1944,
at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico,
hereinafter referred to as the "Commission".

NOW, on this 10th day of August, 1944, the Commission having
before it for consideration the testimony adduced at the hearing of said case
and being fully advised in the premises;

IT IS THEREFORE ORDERED:

That the order herein shall be known as the:

"PICACHO UNIT AGREEMENT ORDER"

SECTION 1. (a). That the project herein shall be known as the
Picacho Unit Agreement and shall hereinafter be referred to as the project.

(b) That the plan by which the project shall be operated shall be
embraced in the form of agreement designated as the "Picacho Unit Agreement",
dated May 25, 1944, annexed to petitioner's petition as an exhibit, and such
plan shall be known as the Picacho Unit Agreement plan.

SECTION 2. That the Picacho Unit Agreement plan shall be and is hereby
approved.

SECTION 3. (a). That the Unit Area shall be:

In Township 11 South, Range 18 East.
All of Sections 17, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, and 35.
Section 16: S₂
Section 22: W₂SE₄, S₂NE₄
Section 23: S₂, S₂W₄
Section 24: SW₄
Section 25: W₂
Section 29: S₂, E₂W₂
Section 32: E₂
Section 36: W₂

In Township 12 South, Range 18 East
All of Sections 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15,
22, 23, 26, and 27.
Section 5: E₂
Section 6: E₂ E₂
Section 16: E₂, E₂W₂
Section 21: E₂
Section 24: W₂
Section 28: E₂
Section 34: N₂
Section 35: N₂

ILLEGIBLE

That any and all amendments to the said Bill shall be made by the said Commission and shall be subject to the approval of the Secretary of the Interior and the Secretary of the Navy and shall be subject to the termination of said Bill.

That the said Bill shall become effective on the day of the termination of said Bill and shall be subject to the termination of said Bill. The said Commission shall immediately notify the Commission in writing of such termination.

Done at Santa Fe, New Mexico, on the day and year hereinafter designated.

OIL CONSERVATION COMMISSION


JOHN J. CAMPBELL, CHAIRMAN

H. E. ROGERS, MEMBER


JOHN H. KELLY, SECRETARY

ILLEGIBLE

CERTIFICATE OF APPROVAL

STATE OF NEW MEXICO



The undersigned, having this day examined an agreement for the co-operative or unit operation and development of a prospective oil or gas field or area, which agreement is entitled "Picacho Unit Agreement, Lincoln County, New Mexico," entered into between Stanolind Oil and Gas Company, Operator, and likewise subscribed by numerous Working Interest Owners and Royalty Owners, to which agreement this certificate is attached; and

WHEREAS, upon examination thereof, 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 field;

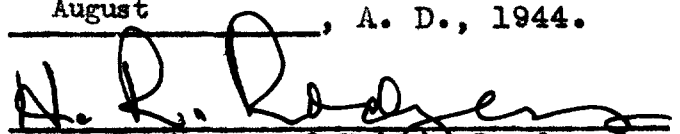
b. That under the operations proposed, the State will receive its fair share of the recoverable oil or gas in place under its lands in the area affected;

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

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

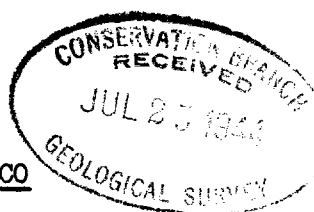
NOW, THEREFORE, by virtue of the authority conferred upon me by Chapter 88 of the Laws of the State of New Mexico, 1943, approved April 14, 1943, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said agreement, as to the lands of the State of New Mexico included in said Picacho Unit Agreement, and subject to all the provisions of the aforesaid Chapter 88 of the Laws of the State of New Mexico, 1943.

Executed this 4th day of August, A. D., 1944.


Commissioner of Public Lands of
the State of New Mexico

5-22-44

Counterpart No 3.
PICACHO UNIT AGREEMENT
LINCOLN COUNTY, NEW MEXICO



THIS AGREEMENT, entered into as of the 25th day of May, 1944, by and between the parties subscribing or consenting hereto;

W I T N E S S E T H:

WHEREAS, the parties subscribing hereto are the owners of operating, royalty, or other oil or gas interests in the Unit Area subject to this agreement; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent avoidable waste and secure other benefits obtainable through development and operation of the Unit Area subject to this agreement under the terms, conditions and limitations hereinafter set forth, under and pursuant to the provisions of Sections 17, 27 and 32 of the Act of Congress approved February 25, 1920, entitled: "An Act to Promote the Mining of Coal, Phosphate, Oil, Oil Shale, Gas and Sodium on the Public Domain," 41 Stat. 443, 448, 450, as amended or supplemented by the Acts of March 4, 1931, 46 Stat. 1523, and August 21, 1935, 49 Stat. 676; 30 U.S.C. 226, 184, and 189; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Chap. 88, Laws 1943) to consent to or approve this agreement on behalf of the State of New Mexico, insofar 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 (Chap. 72, Laws 1935) to approve this agreement and the conservation provisions hereof;

NOW, THEREFORE, for and in consideration of the premises and the promises hereinafter contained, the parties subscribing hereto and the parties consenting hereto agree as follows:

1. LAWS AND REGULATIONS: The Act of Congress, approved February 25, 1920, supra, as amended, and the Acts of the Legislature of the State of New Mexico (Chap. 72, Laws of 1935 and Chapter 88, Laws 1943) and all pertinent regulations issued thereunder, including operating regulations, are accepted and made a part of this agreement.

2. DEFINITIONS: For all purposes of this agreement, certain terms used herein are defined as follows:

(a) "Secretary" shall mean the Secretary of the Interior of the United States and those persons or agencies duly authorized to act for and in his behalf.

(b) "Supervisor" shall mean the Oil and Gas Supervisor of the United States Geological Survey and those persons or agencies duly authorized to act for and in his behalf.

(c) "Commissioner" shall mean the Commissioner of Public Lands of the State of New Mexico.

(d) "Commission" shall mean the Oil Conservation Commission of the State of New Mexico and those persons duly authorized to act for and in its behalf.

(e) "Working Interest Owner" shall mean a party hereto whose interest in the unitized substances under existing contracts and under this agreement is subject to a charge for, or an obligation to pay a portion of the costs and expenses of operations hereunder.

(f) "Royalty Owner" shall mean a party hereto or consenting hereto whose interest in the unitized substances is free from any obligation, liability, or charge for and on account of the costs and expenses of operations hereunder.

(g) "Paying Quantities" shall mean a quantity of the unitized substances sufficient to repay the cost of drilling, equipping and operating the well and a small profit in addition thereto.

3. UNIT AREA: The following described lands are hereby designated and recognized as constituting the Unit Area:

In Township 11 South. Range 18 East

All of Sections 17, 20, 21, 26, 27, 28, 33, 34, and 35

Section 16: $S\frac{1}{2}$
Section 22: $W\frac{1}{2}$, $SE\frac{1}{4}$, $S\frac{1}{2}$ $NE\frac{1}{4}$
Section 23: $S\frac{1}{2}$, $S\frac{1}{2}$ $NW\frac{1}{4}$
Section 24: $SW\frac{1}{4}$
Section 25: $W\frac{1}{2}$
Section 29: $E\frac{1}{2}$, $E\frac{1}{2}$ $W\frac{1}{2}$
Section 32: $E\frac{1}{2}$
Section 36: $W\frac{1}{2}$

In Township 12 South. Range 18 East

All of Sections 1, 2, 3, 4, 9, 10, 11, 12, 13, 14, 15, 22, 23, 26, and 27

Section 5: $E\frac{1}{2}$
Section 8: $E\frac{1}{2}$, $E\frac{1}{2}$
Section 16: $E\frac{1}{2}$, $E\frac{1}{2}$ $W\frac{1}{2}$
Section 21: $E\frac{1}{2}$
Section 24: $W\frac{1}{2}$
Section 28: $E\frac{1}{2}$
Section 34: $N\frac{1}{2}$
Section 35: $N\frac{1}{2}$

Embracing 20,471.33 Acres

The Unit Operator, with the consent of a majority in interest of the Working Interest, and subject to the approval of the Secretary, the Commissioner and the Commission, may enlarge the unit area to include other lands believed to be productive of the unitized substances, or may with like consent and approval, diminish the unit area to exclude lands not in any participating area hereunder which is believed to be barren of the unitized substances.

Exhibit "A" attached hereto is a map on which is outlined the herein established Unit Area, together with the ownership of the land and leases in said Area. Exhibit "B" attached hereto is a schedule showing the nature and extent of ownership of oil and gas rights in all land in the Unit Area to which this unit agreement will become applicable by signature hereto, or to a counterpart hereof, by the owners of such rights, and hereinafter referred to as "unitized lands". Said exhibits shall be revised by the Unit Operator whenever any change in the Unit Area or ownership of rights renders such change necessary, and the revised exhibits shall be filed with the record of this agreement.

4. UNITIZED SUBSTANCES: All oil, gas, natural gasoline and associated fluid hydrocarbons producible from land subject to this agreement, in any and all sands or horizons, are unitized under the terms of this agreement and hereinafter are called "unitized substances".

5. UNIT OPERATOR: Stanolind Oil and Gas Company is hereby designated as Unit Operator and by signature hereto agrees and consents to accept the duties and obligations of Unit Operator to conduct and manage the operation of said unit area for the discovery and development of unitized substances as hereinafter provided. Hereinafter whenever reference is made to the Unit Operator, such reference is understood to mean the unit operator acting in that capacity and not as an owner of interests in unitized substances, and whenever reference is made to an owner of unitized substances, such a reference shall be understood to include any interests in unitized substances owned by the Unit Operator.

The Unit Operator shall have the right to resign at any time provided that any well drilled hereunder is placed in a satisfactory condition for suspension, or is satisfactorily abandoned under the Federal Oil and Gas Operating Regulations, if on Federal land, and under the laws of the State of New Mexico, and the rules and regulations of the Commission, if on state or patented land, but no Unit Operator shall be relieved from the duties and obligations of Unit Operator for a period of three (3) months after notice of intention to relinquish such duties and obligations has been served by him on all other parties hereto and the Secretary and the Commissioner,

unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of the Unit Operator prior to the date on which relinquishment by or removal of Unit Operator becomes effective. The parties hereto or a duly qualified new Unit Operator may purchase at its then depreciated market value all or any part of the equipment, material, and appurtenances in or upon the land subject to this agreement, owned by the retiring Unit Operator, in its capacity as such operator, or make other arrangements satisfactory to the retiring Unit Operator for the use thereof, provided that no such equipment, material, or appurtenances so selected for purchase shall be removed prior to the effective date of Unit Operator's retirement. Any equipment, material, and appurtenances not so purchased or arranged for as to the use thereof within said time limit may be removed by the retiring Unit Operator at any time within six (6) months after his relinquishment or removal becomes effective, but if not so removed shall become the joint property of the owners of working interest rights in land then subject to this agreement. The termination of any rights as Unit Operator under this agreement shall not of itself terminate any right, title, or interest which the Unit Operator may then have in the unitized substances, but the Unit Operator shall have the right and option in connection with its resignation to reassign or retransfer to its several predecessors in interest all of its interest in the lands and leases severally acquired from them, together with its working interest in the unitized substances, and upon such delivery be discharged from any future liability as a working interest owner hereunder; said reassignments to be effective as to said transferee thereupon, subject, however, to the approval of the Secretary as to transfers of interest in lands of the United States and subject, however, to the approval of the Commissioner as to interests in lands of the State of New Mexico.

6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall discontinue or relinquish his rights as Unit Operator or shall fail to fulfill his duties and obligations as Unit Operator under this agreement, the owners of the majority of the unitized working interests in the participating area on an acreage basis, or the owners of working interests according to their total acreage interest in the unit area until a participating area shall have been established, shall select a new Unit Operator, provided that if the majority of the working interests rights which are at any time qualified to vote in selecting a new Unit Operator are owned by one party to this agreement then a vote of at least two owners of working interests qualified to vote shall be required to select a new operator. Such selections shall not become effective until (a) a Unit Operator so selected shall agree and consent in writing to accept the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Secretary and the Commissioner. In the absence of the selection of an acceptable Unit Operator by the working interest owners within (6) months after notice by Unit Operator of intention to relinquish its rights as Unit Operator, this unit agreement shall automatically terminate.

The Unit Operator shall be subject to removal by the Working Interest Owners in the same manner as herein provided for the selection of a new Unit Operator.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as hereinafter specified, the exclusive right, privilege, and duty of exercising any and all rights of the parties signatory hereto which are necessary or convenient for prospecting for, producing, storing, and disposing of the unitized substances are hereby vested in the Unit Operator and shall be exercised by said Unit Operator as provided in this agreement. Acceptable evidence of title to said rights shall be deposited with the Unit Operator and, together with this agreement, shall constitute and define said Unit Operator's rights, privileges, and obligations in the premises; provided that nothing herein shall be construed to transfer title to any land, or to any operating agreement or leases, it being understood that under and pursuant to this agreement the Unit Operator shall exercise the rights of possession and use vested in the parties hereto only and exclusively for the purposes herein specified. The Unit Operator shall pay all costs and expenses of operations with respect to the unitized land, and no part thereof shall be charged to the Royalty Owners. The method of handling such costs and expenses is left to private arrangement between the Unit Operator and the Working Interest Owners.

The development and operation of land subject to this agreement under the terms hereof shall be deemed full performance by Unit Operator of all obligations for such 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.

8. DRILLING TO DISCOVERY: Within six (6) months from the effective date of this agreement, Unit Operator shall begin operations in the unit area to drill an adequate test well at a location upon the Unit Area to be approved by the Supervisor, if such location is upon lands of the United States, and if upon State lands or patented lands, such location shall be approved by the Commission, and having commenced such operations shall continue such drilling diligently until said well shall have been drilled to a depth not less than 3500 feet unless oil or gas which can be produced in paying quantities is encountered in said well at a lesser depth or unless, at a lesser depth, an igneous or metamorphic formation or some other condition or formation is encountered which would render further drilling inadvisable or impracticable. If said first well, drilled as aforesaid, fails to encounter the unitized substances, Unit Operator or his successor shall thereupon commence within six (6) months after the completion of the former well, and drill, one at a time, additional wells until a productive well is completed to the satisfaction of the Supervisor and Commissioner, or until it is reasonably proved that the unitized land is incapable of producing the unitized substances; provided that the Secretary and Commissioner may grant extension of time for the commencement of any such well; and provided further that nothing herein contained shall preclude any Operator from effectively resigning as provided in Section 5 hereof before any obligation to commence a second or subsequent well accrues hereunder, and be relieved of the obligation to commence such well.

9. PLAN OF DEVELOPMENT AND OPERATION: Within sixty (60) days from completion of a well capable of producing the unitized substances as aforesaid, Unit Operator shall submit for the approval of the Supervisor, the Commissioner, and the Commission an acceptable plan of development for the Unit Area, which plan or a subsequent modification thereof, when so approved, shall constitute the further drilling and operating obligations of Unit Operator. Said plan for further development and operation on like approval may be modified from time to time to meet changed conditions; provided further than in no event shall the Operator under any such plan, or otherwise, be under any obligation to drill any well to any formation that does not afford a fair possibility for encountering the unitized substances in paying quantities. Well drilling operations including well completions, producing practices and well abandonments, shall be in accordance with the Plan of Development and Operation. All operations thereunder shall be subject to the approval of the Supervisor as to wells on federal land and by the Commission for wells on state and private land.

During any period when it shall appear that an acceptable plan of development cannot be adopted because of the inability of the Supervisor, the Commissioner and the Commission to agree upon the terms thereof, the Unit Operator may, in accordance with the applicable regulations referred to in Section 1 hereof, proceed with reasonable diligence to drill other wells to determine the limits of production and to develop the productive portion of the unit area, and may and shall operate all productive wells in conformity with good operating practices, and the conservation principles of this agreement.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a productive well as aforesaid, Unit Operator shall submit for the approval of the Secretary, the Commissioner and the Commission a schedule of lands based on subdivisions of the public land survey then regarded as reasonably proved to be productive of unitized substances in paying quantities; all land in said schedule, when approved, to constitute a participating area effective as of the date of first production. Said schedule shall set forth the percentage acreage interest of each owner of rights in the participating area thereby established. Such percentage acreage interest shall govern the allocation of production from and after the date the participating area becomes effective. With the approval of the Secretary, Commissioner and the Commission, a separate participating area may be established for any separate deposit of unitized substances or for any group of such deposits. The participating area or areas so established shall be enlarged from time to time in like manner and subject to like approval whenever such action appears proper as a result of further drilling operations to include additional land then regarded as reasonably proved to be productive in paying quantities, and a new schedule of percentage acreage interests conformable thereto shall thereupon be fixed. The effective date of any such enlargement shall be the first of the month next following the month in which the well is completed which demonstrates the propriety of the enlargement, and any unitized substances theretofore produced from such well shall be allocated to the lease on which the well is drilled. A well shall be deemed completed when equipped and successfully tested for production, all of which shall be done diligently. No land once included in a participating area shall be excluded from such participating area on account of depletion of the unitized substances therefrom, or for any cause save loss of title.

It is the intent of this Section that a participating area shall at all times represent as nearly as possible the area known or reasonably estimated to be productive in paying quantities; but, regardless of any increase in the participating area, nothing herein contained shall be construed as requiring any retroactive apportionment of any sums accrued or paid for production obtained prior to the effective date of increase of the participating area.

Until a participating area or areas has or have been established as herein provided, or in the absence of agreement at any time between the Unit Operator, the Secretary, the Commissioner, and the Commission as to the proper boundaries of a participating area, the portion of all payments affected by such absence of agreement, except the royalties due the United States and the State of New Mexico, may be impounded in a mutually acceptable bank.

11. DEVELOPMENT OF LANDS OUTSIDE THE PARTICIPATING AREA: Any exploratory wells drilled on any unitized land outside the boundaries of any then existing participating area shall be drilled by the Unit Operator at the cost of the Participating Area Working Interest Owners as may be provided in the separate operating contract herein referred to. If any such well encounters the unitized substances in paying quantities, the said well and the portion of the unitized lands proved thereby to be productive in paying quantities shall be added to the participating area in manner as provided in Section 10 hereof. If said well encounters a producible quantity of the unitized substances, but not in paying quantity, the owner of the operating rights on the tract covered by the well may at his option within 30 days after notice by the Unit Operator take over said well by making reimbursement to the Operator as provided in said operating contract. Otherwise the Unit Operator may continue to operate the well and appropriate the production therefrom to apply upon the cost of drilling, equipping and operating said well; provided, however, that if and when Unit Operator secures reimbursement therefrom for the cost of drilling, equipping and operating the same, Unit Operator may turn the well over to the owner of the operating rights on the tract on which the well is situated upon compensation for the fair market value of the recoverable equipment. If the Operator shall desire to abandon said well, the owner of the operating rights on said tract may take over and operate said well by reimbursing the Unit Operator for the fair market value of the recoverable casing and other well property necessary to operate the well.

If upon thirty (30) days notice by the owner of the operating rights on any unitized tract of land outside the participating area, Unit Operator shall fail or refuse to commence and drill a well for the testing of the productivity of the tract, the owner of the operating rights on said tract may drill said well at his sole cost, risk, and expense, including cost of abandonment, and if said well encounters the unitized substances in paying quantities, the well and the unitized land proved productive in paying quantities thereby shall be added to the then existing participating area and the participating area shall be enlarged upon a basis of financial adjustment of investment costs between the said owner of the operating rights on the well tract and the Working Interest Owners in the former participating area as may be provided by the operating contract, or otherwise by agreement among said parties. In the event that said well encounters the unitized substances in producible quantity but not in paying quantity, and upon determination thereof by the Unit Operator and the Working Interest Owners, the parties so drilling said well may operate and produce the well at their sole cost and risk and expense and for their sole benefit.

Any operations under this section shall be subject to the drilling, producing and conservation requirements of this agreement and of any plan of development then or thereafter in force, and subject to the payment of the rental and royalty required by the applicable leases or contracts on the production from said well.

12. ALLOCATION OF PRODUCTION--ROYALTIES: Except as provided in Section 11, all unitized substances produced under this agreement, except any part thereof used for production and development purposes thereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of land of the participating area, and, for the purpose of determining any benefits that accrue on an acreage basis as a result of operations under this agreement, each such tract shall have allocated to it such percentage of said production as its area bears to the said participating area. Unitized substances produced from any participating area and used in conformity with good operating practice under an approved plan of operation for repressuring or cycling in any participating area shall be free from any royalty charge.

If Unit Operator introduces gas obtained from sources other than the unitized substances into any participating area hereunder for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan first approved by the Supervisor, the Commissioner, and the Commission, a like amount of gas may be drawn 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 operation or as may otherwise be consented to by the Supervisor, the Commissioner and the Commission as conforming to good petroleum engineering practice, and provided further that such right of withdrawal shall terminate on the termination of the unit.

Except as otherwise herein provided, royalties shall be paid or delivered as provided by existing leases or contracts, at the lease or contract rate upon the unitized substances allocated to the lease or tract. Settlement shall be made on or before the 20th day of each month for the unitized substances produced during the preceding calendar month. Such royalties shall be paid by the party operating the wells, but nothing herein shall operate to relieve the lessees, or any of them, of their obligation to pay rentals and royalties under the terms of their respective leases.

The right is hereby secured to the United States and the State of New Mexico under existing or future laws and regulations to elect to take their respective royalty shares in kind or value.

13. GOVERNMENT ROYALTIES: Royalty due the United States on account of federal lands subject to this agreement within the Unit Area shall be computed as provided in the operating regulations; 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 all the unitized lands within the participating area were a single consolidated lease. During the period of the National Emergency proclaimed by the President on May 27, 1941, Proclamation No. 2487 (55 Stat. 1647) as to any new oil or gas deposit discovered by virtue of a well or wells drilled under this agreement, the royalty obligation to the United States shall be fixed for a period of ten years after such discovery at a flat royalty rate of 12½% of the amount or value of the production allocable to said leases from such new deposit.

14. RENTALS: Each lessee shall be responsible for and shall pay all rentals of whatsoever kind on his respective leases. Rental for land of the United States subject to this agreement at the rate specified in the respective leases from the United States shall be paid, suspended, or reduced as may be determined by the Secretary pursuant to applicable law and regulations. The Unit Operator may apply the government's allocated royalty share of the unitized substances to repayment for government rentals advanced hereunder to the same extent as otherwise allowed in the case of an individual government lease.

15. CONSERVATION: Operations and production of unitized substances shall be conducted so as to provide for the most economical and efficient recovery of unitized substances to the end that maximum ultimate yield may be obtained without waste. Production of unitized substances shall at all times be without waste as defined by or pursuant to state or federal law.

16. DRAINAGE: Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or, with the approval of the Secretary as to federal interests and of the Commissioner as to state interests, and at the election of the Unit Operator as to private interests, pay the Royalty Owners a fair and reasonable compensatory royalty, as determined by the Supervisor as to federal interests, and the Commissioner as to state interests subject to this agreement, and by agreement between the Unit Operator and royalty owners, as to private interests.

17. LEASES AND CONTRACTS CONFORMED TO AGREEMENT: The parties hereto or consenting hereto holding interests in leases embracing unitized land of the United States or of the State of New Mexico consent that the Secretary and Commissioner, respectively, may, and said Secretary and Commissioner, by their approval of this agreement, do hereby establish, alter, change or revoke the drilling, producing, and royalty requirements of such leases and the regulations in respect thereto, to conform said requirements to the provisions of this agreement, but otherwise the terms and conditions of said leases shall remain in full force and effect.

Owners and lessors of privately owned lands or of interests therein, including royalty interests, and including their heirs, executors, administrators, successors and assigns, by subscribing or consenting to this agreement, in person or by attorney in fact, do hereby severally agree that the respective leases covering their several lands or interests therein, may be and remain in force and effect for the respective primary terms therein stated, and so long thereafter as oil or gas may be produced therefrom in quantities sufficient to justify the cost of production; and also in the event that any of the land embraced in any such lease is during the primary term of such lease included within a participating area duly selected and approved under this unit plan of development, so that each owner becomes entitled to a share in the proceeds of production from the participating area, payable at the respective lease rates on the production allocated on an acreage basis to the portion of the lease within the participating area, then each such lease is hereby extended, without further delay rental obligation, as to the land embraced therein which is so included in such participating area, for the full term of this unit plan as herein stated.

The Secretary, Commissioner and, except as otherwise provided in the preceding paragraph of this Section, all parties hereto further determine, agree and consent that during the effective life of this agreement, drilling and producing operations performed by the Unit Operator upon any unitized land will be accepted and deemed to be operations under and for the benefit of all unitized leases subject hereto; that no such lease shall be deemed to expire by reason of failure to produce wells situated on land therein embraced; that if a discovery of a valuable deposit of unitized substances is made anywhere on the unitized land, each such lease in effect on or after the date of such discovery shall be deemed to continue in force and effect as to land in the unit area, as long as unitized substances are produced anywhere on unitized land in paying quantity; and the suspension of all operations and production on the unitized land pursuant to direction or consent of said Secretary and Commissioner shall be deemed to constitute such suspension pursuant to such direction or consent with respect to each such lease, and that no lease shall expire on account of such suspension, as to land in the unit area.

The parties hereto or consenting hereto, holding interests in leases subject to this agreement embracing lands other than those of the United States or of the State of New Mexico or holding interests in any other agreements that involve oil and gas rights in lands in the Unit Area, consent and agree, to the extent of their respective interests, that all such leases and agreements shall conform to the provisions of this agreement.

18. COVENANTS RUN WITH LAND: The covenants herein run with the land until this agreement terminates, and any grant, transfer or lease 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, lessee, or other successor in interest and as to federal land, shall be subject to approval by the Secretary, and as to lands of the State of New Mexico, shall be subject to the approval of the Commissioner. No transfer of any interest in and to any of the unitized lands or affecting the production therefrom shall be binding upon the Unit Operator until the first day of the next calendar month after the Unit Operator has been furnished with an original, photostatic or certified copy of the instrument of transfer.

19. EFFECTIVE DATE AND TERM: This agreement shall become effective on the first day of the calendar month next following approval by the Secretary and the Commissioner, provided however that nothing herein shall be construed to waive or limit the right of the Commission to approve this agreement pursuant to applicable state law. Except as otherwise provided by the second paragraph of Section 17 hereof, this agreement shall terminate on June 30, 1949, unless (1) such date of expiration is extended by the Secretary and the Commissioner; or (2) a discovery of unitized substances in paying quantities has been made on the Unit Area, in which case this agreement shall remain in effect as long as unitized substances can be produced from the Unit Area in paying quantities; or (3) it is proved at an earlier date that the Unit Area is incapable of production of unitized substances in paying quantities, and with approval of the Secretary and the Commissioner, notice of termination is given by Unit Operator to all parties in interest by letter addressed to them at their last known places of address; or (4) it is terminated as provided in Section 6 hereof; provided that this agreement may be terminated at any time with the consent of the owners of 75%, on an acreage basis, of the Working Interest Owners signatory hereto with the approval of the Secretary and the Commissioner.

20. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION: All production and the disposal thereof, shall be in conformity with allocations, allotments and quotas made or fixed by the Commission under any State Statute; provided however that the Secretary is vested with authority pursuant to the amendatory acts of Congress of March 4, 1931, and August 21, 1935, supra, to alter or modify from time to time in his discretion the rate of prospecting and development, and, within the limits made or fixed by the Commission, to modify the quantity and rate of production under this agreement, 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; provided further that no such alteration or modification shall be effective as to any lands of the State of New Mexico as to the rate of prospecting and development 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 Commission.

21. FORCE MAJEURE: Failure or delay in the performance of the terms, conditions, and covenants hereof shall not cause this contract to expire, terminate, or be forfeited in whole or in part, nor subject the Unit Operator or other party otherwise liable therefor to liability in damages, to the extent and so long as such prompt performance is hindered, delayed or prevented by any federal or state law, executive order, rule or regulation, or to the extent and so long as such performance is hindered, delayed, or prevented by an act of God, of the public enemy, governmental interference or restraint, inability to obtain material or equipment, weather conditions, labor disputes, failure of transportation, or other cause, whether similar or dissimilar, beyond the control of the party in interest.

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 for delay or failure in whole or in part to comply therewith to the extent that said Unit Operator, Working Interest Owners or any of them are hindered, delayed, or prevented from complying therewith by reason of failure of Unit Operator to obtain the joint consent of the representatives of the United States and the representatives of the State of New Mexico in and about any matter or thing concerning which it is required herein that such joint consent be obtained. The parties hereto and consenting hereto, including the Commission agree that all powers and authority vested in the Commission in and by any provision of this contract are vested in the 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. NON-DISCRIMINATION: The Unit Operator expressly agrees that in any and all operations conducted hereunder, it shall not discriminate against any employee or applicant for employment because of race, creed, color, or national origin, and shall require an identical provision to be included in all subcontracts.

24. SUBSEQUENT JOINDER: Any person owning rights in the unitized substances within the unit area who does not commit such rights hereto prior to the effective date hereof, may thereafter become parties hereto by subscribing this agreement, and if such parties are working interest owners they shall also subscribe the operating contract and comply with all terms and conditions therein set forth.

25. COUNTERPARTS: This agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties, owning or claiming an interest in the lands affected hereby.

IN WITNESS WHEREOF the parties have hereunto set their hands and have set opposite their respective names the date of execution.

ATTEST: [Signature]
Secretary

UNIT OPERATOR
STANOLIND OIL AND GAS COMPANY
By [Signature]
Vice-President

APPROVED	
LEGAL DEPT.	SALES DEPT.
GEOL. DEPT.	MFG. DEPT.

[Handwritten initials and signatures over the stamp]

WORKING INTEREST OWNERS

ATTEST:

J. E. Ecker
Secretary

STANOLIND OIL AND GAS COMPANY

By

E. F. Sullivan
Vice-President

ATTEST:

Billy Cunningham
acst. Secretary

SNOWDEN AND MCSWEENEY, INC.

By

J. Thomas Kelly
Vice-President

Willie Stell Stancliff
Willie Stell Stancliff

William W. Brunson
William W. Brunson

Mabel E. Brunson
Mabel E. Brunson

G. C. Brunson
G. C. Brunson

George B. McCamey
George B. McCamey

E. H. Pipkin
E. H. Pipkin

Neil H. Wills
Neil H. Wills

STATE OF OKLAHOMA }
 } SS:
COUNTY OF TULSA }

On this 25th day of May, A. D., 1944, before me appeared E. F. BULLARD, to me personally known, who, being by me duly sworn, did say that he is the Vice President of STANOLIND OIL AND GAS COMPANY, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed on behalf of said corporation as Unit Operator and as a Working Interest Owner by authority of its Board of Directors, and the said E. F. BULLARD acknowledged said instrument to be the free act and deed of said corporation as Unit Operator and as a Working Interest Owner therein.

IN WITNESS WHEREOF I have hereunto set my hand and affixed my Notarial Seal at Tulsa, Oklahoma, this 25th day of May, 1944.

STATE OF TEXAS |
COUNTY OF Briscoe |

BEFORE ME, the undersigned authority, a Notary Public in and for
 Briscoe County, Texas, on this day personally
appeared Mabel E. Brunson wife of William W. Brunson
known to me to be the person whose name is subscribed to the foregoing
instrument, and having been examined by me privily and apart from her
husband, and having the same fully explained to her, she, the said

Mabel E. Brunson, acknowledged such instrument to be
her act and deed and declared that she had willingly signed the same
for the purposes and consideration therein expressed, and that she did
not wish to retract it.

This 12th day of June 1944
H. G. Gardner
Notary Public in and for
H. G. Gardner

Briscoe County, Texas

personally

STATE OF New Mexico |
COUNTY OF Eddy | SS:

On this 6th day of June, A. D., 1944, before me
personally appeared Neil H. Bills

XXXXXXXXXXXXXXXXXXXXXXXXXXXX
(husband and wife) (a single person) to me known to be the person described in and
who executed the foregoing instrument and acknowledged that he (they) executed the
same as his (their) free act and deed.
IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal
the day and year first above written.
My commission expires 4/1/47

Louise Kertheim
Notary Public

STATE OF New Mexico |
COUNTY OF Chavez | SS:

On this 6th day of June, A. D., 1944, before me personally appeared

William W. Brunson

(~~husband and wife~~) (~~a single person~~) to me known to be the person described in and who executed the foregoing instrument and acknowledged that he (they) executed the same as his (their) free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal

THE STATE OF TEXAS

COUNTY OF TARRANT

Before me, the undersigned authority, on this day personally appeared GEORGE B. McCAMEY, known to me to be the identical person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 15th. day of June, A. D., 1944.

Joe F. Orr (JOE F. ORR)
Notary Public in and for Tarrant County,
Texas.

STATE OF New Mexico |
COUNTY OF Chaves | SS:

On this 6th day of June, A. D., 1944, before me personally appeared

W. C. Brunson

(~~husband and wife~~) (~~a single person~~) to me known to be the person described in and who executed the foregoing instrument and acknowledged that he (~~they~~) executed the same as his (~~their~~) free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.

My commission expires April 3, 1948.

Arlene Gibbany
Notary Public