CERTIFICATE OF APPROVAL

BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

SOUTH VACUUM UNIT

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated <u>September 6, 1957</u>, which has been executed or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

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

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, 7-11-48, New Mexico Statutes Annotated 1953 Compilation, 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, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this <u>9th</u> day of <u>September</u> 19 $\frac{57}{57}$.

Morga

Commissioner of Public Lands of the State of New Mexico

UNIT ANNERSHIPP FOR THE DEVELOPHINE AND OPERATION OF THE SOURY VACUUM UNIT AREA LEA COUNT, NON MEXICO (3)

THIS ACREMENT, entered into as of the <u>6th</u> day of <u>September</u> 1957, by and between the parties subscribing, ratifying or concenting hereto, and herein referred to as the "parties hereto",

XITERSSETE:

ILLEGIBLE

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

MERREAS, the Commissioner of Public Lands of the State of New Mexico (hereinefter referred to as "Commissioner") is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1,43) as amended by Sec. 1 of Chapter 162, Laws of 1951. (Chap. 7, Art. 11, Sec. 39, N.M. Statutes 1953 Annotated), to consent to and approve the development or operation of state lands under agreements made by lassees of state land jointly or meverally with other lassees where such agreements provide for the unit operation or development of part of or all of any eil or gas pool, field, or area; and,

WHEREAS, the Commissioner of Public Lands of the State of New Maxico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1.51, Chap. 7, Art. 11, Sec. 41 N.M. Statutes 1953 Annotated) to amend with the approval of lassee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing state lands so that the length of the term of suid lease may coincide with the term of such agreements for the unit operation and development of part of or all of any oil or gas pool, field or area; and,

"HEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by an Act of the Legislature (Chap. 72, Laws 1.35; Chap. 55, Art. 3, Sec. 14 B.M. Statutes 1.53 Annotated), to approve this agreement and the conservation provisions hereof; and,

WHEREAS, the parties mereto hold sufficient interests in the South Vacuum Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and, WHEREAS, it is the purpose of the parties hereto to conserve metural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth.

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

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

NEW VEXICO PRINCIPAL MERIDIAN, NEW MEXICO

Township 18 South, Range 35 East

Section 27: SE Section 26: Sa Section 34: NE Section 35: All Section 36: SE, Massa, Net

Containing 1,680 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, mothing herein or in said achedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "E" shall be revised by the Unit Operator whenever changes in ownership in the unit area render such revision necessary, or when requested by the Commissioner of Fublic Lands, hereinafter referred to as "Commissioner".

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

2 -

2. <u>UNITERD SUMPAREN</u>. All oil, gas, minutal gaseline and associated Field hydroserbons in any and all formations of the unitized last are unitized under the terms of this agreement and herein are called "unitized substances". 3. <u>UNIT OFFNATOR</u>. Unlos Oil Geograpy of California, with offices

at Midland, Texes, is hereby designated as Unit Operator and by signature herete commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B", and agrees and concents to accept the duties and oblightions of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is node herein to the Unit Operator, such reference means the Unit Operator acting in that expectly and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it. A. REFIGNATION OF REDEVAL OF UNIT OPERATOR. Unit Operator shall

have the right to resign at any time but such resignation shall not become effective until a successor Unit Operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

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

The resignation or removal of the Unit Operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly

-3-

unlified mecosseer Unit Operator or to the expers thereof if no such new Unit Operator is elected, to be used for the purpose of combucting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any meterial, equipment and appurtenances meded for the prevention of any vells.

5. <u>SUCCESSOR UNIT OPERATOR</u>. Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereimshove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor Unit Operator; provided that, if a majority but less them seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a conserving vote of sufficient additional parties, so as to constitute in the aggregate not less them seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS. The Unit Operator shall pay in the first instance all costs and expenses incurred in combucting unit operations hereunder and such costs and expenses and the working interest benefits accraing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement by and between the Unit Operator and the other owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to do the "Operating Agreement". No such agreement shall be deemed wither to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this

P.

11 Within the l BA. PLAN OF PARTICIPAL IN plotion of a wall on a Unit Operator shall only iacian, an acceptable give at of Land which, when approved by the Odi stitute the further trilling ant operating oblig ter this agreement for the puriod specified t time to time before the explosion of any emisting plan, the Welt Op mit for the approval of the Genelesianer, and the Constantan, a plan a additional specified period for the develop al approximation of the stined land. My plan submitted paramet to this sector shall provide for ploration of the unitized area and for the determination of the area or thereof capable of producing unitized substances in paying guardities in and every productive formation and shall be as complete and adoptate as declaser, and the Countreion, may determine to be accounty for timely develat and proper conservation of the all and gas resources of the unitized as ball (a) specify the number and issuitions of any wells to be drilled and the gened order and time for such drillings and (b) to the extent practicable spacify the operating practices regarded as necessary and advisable for proper servation of antural resources. Superate plans may be exhautted for er profestive somes, subject to the approval of the Consistioner and the Consistion. Such plan or plans shall be modified or supplemented when necessary to most d conditions or to protect the interests of all parties to this agreement. In dilimnoe shall be exercised in complying with the oblightions of this approved plan of development. The Countentemer is anthorized to grant a reasonable extension of the siz-month period herein preservibed for selector of an initial e of unnounl conditions plan of development where such astism is justified because or elroumstances. After completion herosmier of a well expehie of producing any unitized substances in paying quantities no further wells, encept such as may be secury to afford protection against operations not under this agreement of h as may be specifically approved by the Consistioner shall be drilled emospi cordence with a plan of development approved as herein.

- 54-

unit aproximate and in one of any internationales or continues in the second in the second in the second se

7. Elseven Alb. Contractor dfloally provided bosein, the and any and all rig into of the g dat harve visiah a for prospecting for, producing, showing, allowhing and EletaDubing t betanees are hereby delingedid to and shell. to experient by the Unit or as herein provided. Acet innes of title to said sta rthur with this as dependent with said that Gynamiter and, to - C. tivete and define the rights, privileges and oblightent of Unit Group ing herein, however, shall be complyed to transfer title to any hand or ry lease or operating agreement, it being understool that un her this a t the Unit Operator, in its capacity as Unit Operator, shall essente the rights of possession and use vested in the parties herete ally for the parget horein specified.

8. DRILLING TO DISCOVERY. The Unit Operator shall, on the effortive date of this agreement, common operations upon an adequate test will for all gas upon some part of the lamis embrased within the unit area and shall drill said well with due diligence to a doyth sufficient to test the Devenium formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or watil it shall, in the optaion of Unit Operator, be determined that the further drilling of said well shall be unmarr or impracticable; provided, however, the Unit Operator shall not, in any event, required to drill said well to a depth in encode of 12,900 feet. Until a discovery of a deposit of unitized substances capable of being produced in yesing quantities, Unit Operator shall continue drilling diligently, one wall at a time, allowing not more than six months between the completion of one well and the beginning of the next well, within a well capable of producing unitized substances in paying quantities is completed to the astisfaction of the Conmissioner, or until it is reasonably proven to the satisfaction of the Unit Operator that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.

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

3. <u>PARTICIPATION AFTER DISCOVERY</u>. Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective languable interests covered hereby on an acreage basis bears to the total number of scree committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective lessehold interests participating therein. For the purpose of determining any benefits accruing under their agreement and the distribution of the royalties payable to the basis of Scree Original other lessors, each separate lesse shall have allocated to it such percentage of said production as the maker of acres in each lesse respectively constitued to this agreement bears to the total number of acres constitute lerets.

Botwithstanding any provision contained honein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances is kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest poner without specific authorization from time to time so to do.

10. ALLOCATION OF PARAMETER. All unitized substances produced from each tract in the unitized area established under this agreement, except any

-6,-

part thereof used for production of devolupions perposes because, or unstable obly lost, shall be deemed to be produced equiling an an enough basis from the several tracts of the unitized load, and for the perpose of determining any benefits that accrus on an example basis, each such track shall have been allounted to it such percentage of sold production as its area beens to the entries unitized area. It is beauty agreed that production of unitized substances from the unitized area shall be allowed as provided herein, regardiess of whether any wills are drilled on any perticular tract of anid unitized area.

11. PAYMENT OF RENTALS, NORALFING AND OVERETHING BOTALFING. All restals due the State of New Mexico and other lessors shall be prid by the respective lease owners in accordance with the terms of their lesses.

All royalties due the Shate of New Mexico and other lessons under the terms of the lesses committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective lesses committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective lesses, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

If the Unit Operator introduces gas obtained from sources other than the unitised substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized subatances therefrom, a like amount of gas, if available, with due allowance for loss of depletion from any cause may be withdrawn from the formation into which the gas was introduced regalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any hease conmitted hereto is burdened with an overriding royalty payment out of production or other charge in addition to the usual royalty, the

-7-

awaar of each such lease shall beer and assume the same out of the unitiand substances allocated to the lapie subsuced in each such lease as provided herein-

12. LEASES AND CONTRACTS CONFORMED AND EXTERNO AND CONTAR AS THEY APPLY TO LANDS SITTLE THE ENTRICED ANDA. The terms, conditions, and provisions of all lasses, subleases, operating agreements, and other contracts relating to the exploration, drilling, development, or operation for oil or gas of the lands committed to this agreement shall, upon approval hereof by the Commissioner, as to lands of the State of New Maxico and by the other lessons as to privately owned lands, be, and the same are hereby expressly modified, and asended insofar as they apply to lands within the unitized area to the extent measury to make the same conform to the provisions hereof and so that the length of the term of said leases will be extended incofar as necessary to coincide with the term of this agreement and the approval of the agreement by the Commissioner and/or the lesses shall be effective to conform the provisions and extend the term of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement shall continue in force beyond the term provided therein so long so this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term leave committed to this agreement. Termination of this agreement shall not effect any isnee which pursuant to the terms thereof or any applicable laws shall continue in full force and effect thereafter. The commencement, completion, operation or production of a well on any part of the unit area shall be respectively construed and considered as the commencement or completion or operation or production of a well within the terms and provisions of each of the oil and gas leases to the same extent as though such commencement, completion, operation or production was corried on, conducted on or obtained from any such leased tract.

Any lease entracing lands of the State of New Sprice paving only a portion of its lands constitued hereto shall be segregated as to the pertion

ILLEGIBLE

-Ç.,

sitial and to the portion not consisted, and the torus of such lotse shall oply superstaly to such segregated pertilent community as of the effective date of. Reprinterenting any of the previations of this agreement to the contentry, lease enbracing lands of the State of New Moxies having only a particul of its he constitued here's shall would not in full force and effort beyond the term provided therein as to all lands enhoused in such lange, if unitized substances are discovered and are capable of being produced in paying guantities from some part of the lands embraced in such leave coundthed to this agreement at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lesses or the Unit Operator is then engaged in bons fide drilling or revorking operations on some part of the lands entereosd therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of unitized substances, sold lease shall continue in full force and effect as to all of the lands enbraced therein, so long thereafter as unitized substances in paying quantities are being produced from any portion of said lands.

13. CONSERVATION. Operations bereamder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to state laws or regulations.

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

15. <u>COVERANTE RUN GITH LAND</u>. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties herets and their successors in interest until this agreement terminates, and any grant, transfer or conveyance, of interest in land or lesses subject hereto shall be and hereby is conditioned upon the assumption of all privileges and oblightions hereunder by the grantes, transferee or other successor in interest. No assignment or transfer of any working royalty or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar south after Unit Operator 15 furnished with the original, photostatic or certified copy of the instrument of transfer.

-9-

ILLEGIBLE

at t 16. THE SHAP DOR. upon approval by the Consideriance and shall terminate in t tate unloss (a) such date of anytautities is to (b) a valuable discovery of unities with af in which g said initial term or any extension the about this of a chall remain in offers so long as unities missions on he prefer from the unitiesd land in paying gambities, and, should pusheation eccor, on a thereafter as diligent operations are in progress for the restarction of production or discovery of mer production and so long thereafter as the unitin stances so discovered can be produced as aferenaid. This agreement may be dauted at any time by not loss them seventy-five percent (755) on an acronge basis of the owners of the working interests signatory herets with the approval of the Commissioner. Libevice, as provided in Section 8 herbof, the failure to couply with the frilling provisions of this unit agreement shall as of the date of any such default, subsubilably terminate this unit agreement.

17. RATE OF FROMETICE, All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

18. <u>APPEARANCES</u>, Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissionsr of Public Lands and the New Maxico Gil Conservation Commission and to appeal from orders issued under the regulations of the Commissionsr or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expanse to appear and to participate in any such proceeding.

19. <u>NOTION</u>. All notices, demands or statements required herewhier to be given or rendered to the parties hereto shall be deemed fully given, if given in writing and personally delivered to the party or sent by postpaid, registered mail, addressed tosuch party or parties at their respective addresses

-10-

and Smith in connection with the algorithme have a or to the subficientian or algorith bareaf or to such other aligned as any such party my have flarstated in writing to party souling the mobiles, denned or statement.

20. <u>UNITERATE MERC</u>. All childrene under bide agreement wemetring the Unit Operator to commune or consists drilling or to operate on or produce unitized orderinnes from any of the lambe covered by this agreement shall be suspended while, but unly so long on, the Unit Operator, dospite the exercise of due care and diligence, is prevented from couplying with such chlightions, in whole in part, by strikes, unr, acts of Gud, Federal, bets or municipal law or agreeise, unpredictive socidents, uncentralis in open delays in transportation, instility to obtain measure of the Unit Operator method, or other matters beyond the resonable control of the Unit Operator whether similar to matters here in emergeded or not.

21. LOSE OF TITLE. In the event title to any kneet of unitized lead or substantial interest therein shall fail and the true comer common be induced to join the unit agreement so that such truct is not conmitted to this agreement or the operation thereof hereunder because impracticable as a result thereof, such truct may be aliminated from the unitized area, and the interest of the parties readjusted as a result of such truct being aliminated from the unitized area. In the event of a dispute as to the title to any repairty, working or other interest subject hereto, the Unit Operator may withheld payment or delivery of the allocated portion of the unitized substances involved on account thereof without lightliky for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexice shall be withheld. Unit Operator as such is relieved from any respossibility for any defect or failure of any title hereunder.

22. <u>SIDER JEWF JOINDER</u>. Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner any be conmitted hereto by the owner of owners of much rights subscribing or concenting to this agreement or executing a retification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for

-11-

the allocation of costs of exploration, development and operation. After operations are commenced hereunder, the right of subsequent joinder by a wonking interest owner shall be subject to all the requirements of any applioable operating agreement between the working interest owners relative to the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the filing with the Commissioner and the Commission of duly encouted counterparts of the instrument or instruments committing the interest of such owner to this egreement, but each joining party or parties before participating in any benefits hereunder shall be required to assume and pay to Unit Operator their proportionate share of the unit expense incurred prior to such party's or parties' joinder is the unit agreement, and the Unit Operator shall make appropriate adjustments caused by such joinder, without any retronotive adjustment of revenue.

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

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

310,

September 6.1957

UNION OIL COMPANY OF CALIFORNIA E.C. Attarile sas

. . .

ILLEGIB

ų,

URLY AGAINMER' FOR THE DEVILOPHINE AND OPHIMITION OF THE SOURY VACUUM URLY ANEA LEA COMPY, NUM MEXICO (3)

THIS AGREENET, entered into as of the <u>6th</u> day of <u>September</u> 1957, by and between the parties outpartiting, ratifying or concenting boreto, and herein referred to as the "parties hereto",

WITHESSETH:

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

SHEREAS, the Commissioner of Public Lands of the State of New Mexico (hereinefter referred to as "Commissioner") is suthorized by an Act of the Legislature (Sec. 3, Chap. 88, Lave 1943) as amended by Sec. 1 of Chapter 162, Lave of 1951. (Chap. 7, Art. 11, Sec. 39, N.H. Statutes 1953 Annotated), to consent to and approve the development or operation of state lands under agreements unde by lessees of state land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any eil or see pool, field, or even; and,

WHEREAS, the Commissioner of Public Lands of the state of New Mexico is sutherized by an Act of the Legislature (Bec. 1, Chap. 162), (Leve of 1/51, Chap. 7, Art. 11, Sec. 41 N.M. Statutes 1953 Annotated) to assend with the approval of Lessee, evidenced by the Lessee's execution of such agreement or otherwise, any oil and gas lesse embracing state lands so that the length of the term of said lesse may coincide with the term of such agreements for the unit operation and development of part of or all of any oil or gas pool, field or area; and,

WHEREAS, the Oil Conservation Consission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by an Act of the Legislature (Chap. 72, Lava 1.35; Chap. 65, Art. 3, Sec. 14 H.M. Statutes 1953 Annotated), to approve this agreement and the conservation provisions hereof; and,

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

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

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

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

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

Township 18 South, Range 35 Past

Section 27: SB Section 26: S Section 34: MB Section 35: All Section 36: GB, MgSwt, Mot

Containing 1,680 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, mothing herein or is said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "E" shall be revised by the Unit Operator whenever changes in ownership in the unit area render such revision necessary, or when requested by the Commissioner".

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

- 2 -

ILLEGIBI

3. Mill Grandship. Teslen 461 Geogeney of Galifornia, with effices of Midlend, Sense, is knowly designabled as Math Geoseker and by signature merche preside to this aproximate all interests in tesledand relations meters in 18 as not forth is Exhibit "D", and entropy development, on any feedback and oblightions of Unit Operator for the distancery, development, and predestion of unities entropy on hereix presided. Memory setterance is not hereix to the Unit Operator, much reference means the Math Georeter orbing in these means and not as as cover of interests des working and setter or arbitration to the antities of a vorking interest when event an interest is course by St.

4. <u>RESIGNATION OR REDUCAL OF MENT GENERATE</u>. Unit Operator shall have the right to resign at any time but such resignation shall not become effective until a successor Unit Operator has been selected and approved in the manner provided for in Section 5 of this approximat. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit Operator may, upon definit or failure in the performance of its detice or oblightions hereunder, be subject to removal by the same personange value of the owners of working interests determined in like memory as torein provided for the selection of a new Unit Operator. Such removal shall be effortive upon notice thereof to the Commissioner.

The resignation or removal of the Unit Operator under this agreement shall not terminate his right, title or intermet as the erner of a variing intermet or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming affective, such Unit Operator shall deliver personnion of all equipment, outerials and appurbemences need in conducting the unit operations and owned by the working interest evenue to the new dely

-3+

epsilified successor this growther or to the water thereof if to such the this operator is clocked, to be used for the purpose of contenting task oper chiese increaser. Nothing herein shall be construct as outhering tasks oper of any scients), equipment and opportunities model for the provestions of any value.

or the Thilt Op 5. -as this quarator or shall be re to according in th and they such and land shall by a underlay with solve rands (17%) of the i thet, if a sajority but look then or ing interests qualified to with in cased by one party to this agreement, surring vote of sufficient dilitional parties, so as to constitute in ty-five personst (75%) of the total verting regate not lass than sever wate, shall be required to select a new operator. Buck selection shall become effective until (a) a Weit Operator so selected shall scoopt in and (b) the selection writing the duties and responsibilities of Unit Operator shall have been approved by the Considents. If no conceases that Question is selected and qualified as herein provided, the Commissioner at his election ay declare this unit agreement terminated.

6. ACCOMPTED PROVINTIONS. The Unit Operator shull pay in the first instance all costs and expanses insurred in conducting unit operations have and such costs and expanses and the working interest benefits secreting have unlike apportioned among the owners of the unitized working interests in necessance with an operating agreement by and between the Unit Operator and the other owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the vorking interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deeme sitter to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this

SA. PLAN OF FURTHER DEVIS, AND AND ADDRESS Within oix months after completion of a well comple of producing unitized embetanese in paying mutities, the Unit Operator shall enhalt for the approval of the Counisaioner, and the Commission, an acceptable plan of development and operation for the unitized land which, when approved by the Commissions, and the Commission, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any emisting plan, the Unit Operator shall submit for the approval of the Commissioner, and the Commission, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Commissioner, and the Commission, may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Reparate plans may be submitted for separate productive zones, subject to the approval of the Commissioner and the Commission. Such plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of this approved plan of development. The Commissioner is authorised to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substances in paying quantities no further wells, except such as may be necessary to afford protection against operations not under this agreement of such as may be specifically approved by the Commissioner shall be drilled except in accordance with a plan of development approved as herein.

te.

-54-

unit agreement, and in ease of any inconsistencies or conflict between this unit agreement, and the operating agreement, this unit agreement shall provail.

و المحد الفريخ الكرا

7. <u>RECORPS AND COLLEGATIONS OF USET COLLEGATOR</u>. Encept as otherwise specifically provided herein, the exclusive right, privilege and daty of emereising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be emercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall emeruise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY. The Unit Operator shall, on the effective date of this agreement, commence operations upon an adequate test well for of? and gas upon some part of the Lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to test the Devonian formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of Unit Operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, the Unit Operator shall not, in any event, be required to drill said well to a depth in encess of 12,500 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities, Unit Operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner, or until it is reasonably proven to the satisfaction of the Unit Operator that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.

-5-

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

9. PARTICIPATION ATTEN DISCOVERY. Upon completion of a well capable of producing unitized substances is paying quantities, the owners of working intervets shall perticipate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of scres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold intervents participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of Haw Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provision contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate where of the unitized substances is kind or to personally sell or dispose of the same, and nothing harein contained shall be construed as giving or granting to the Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

10. ALLOCATION OF FROMINTION. All unitized substances produced from each tract in the unitized area established under this surcement, except any

-6-

part thereof used for production or development purposes hereander, or univelably lost, shall be deemed to be produced equally on an acroage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acroage basis, each such tract shall have been allocated to it such percentage of said production as its area beers to the estime unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tract of anid unitized area.

11. PAYMENT OF RENTALS, ROYALSTES AND OVERSIDING NOVALSTES. All rentals due the State of New Mexico and other lessors shall be poid by the respective leave owners in accordance with the terms of their leases.

All royalties due the State of New Mexico and other lessors under the terms of the lesses committed to this agreement shall be computed and puid on the basis of all unitited substances allocated to the respective lesses committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

If the Unit Operator introduces gas obtained from sources other than the unitized substances into any producing formatics for the purpose of represouring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due silowance for loss of depletion from any cause may be withdrawn from the formation into which the gas was introduced regalty free as to dry gas but not as to the products extracted therefrom provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Commission as conforming to good petrolaum engineering practice; and provided further, that such right of wathdrawal shall terminate on the termination of this unit agreement.

If any house constitued hereto to burdened with an overriding royalty payment out of production or other charge in addition to the usual royalty; the

7

auger of each such lease shall beer and assume the same out of the unitized substances allocated to the lambs subsueed in each such lease as provided herein.

12. LEASES AND CONTRACTO OF PORCED AND EXCEPTED AND TOTAR AS THE APPER TO LANDS WITHIN THE CHIFILING ANDA. The terms, conditions, and provisions of all lasses, sublaases, operating agreements, and other contracts relating to the exploration, drilling, development, or operation for all or gas of the lands committed to this agreement shall, upon approval hervof by the Commissiomer, as to lands of the State of New Maxico and by the other lessors as to privately owned lands, be, and the same are hereby expressly modified, and amended insofar as they apply to lands within the unitized area to the extent measury to make the same conform to the provisions hermof and so that the length of the term of said leases will be extended incofar as necessary to coincide with the term of this agreement and the approval of the agreement by the Commissioner and/or the lesses shall be effective to conform the provisions. and extend the term of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but othervise to remain in full force and effect. Each lease committed to this agreement shell continue in force beyond the term provided therein so long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said wall is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lesse comnitted to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws shall continue in full force and effect thereafter. The commencement, completion, operation or production of a well on any part of the unit area shall be respectively construed and considered us the communication or completion or constion or production of a well within the verse and provisions of each of the oil and gas leaves to the same extent as though such commencement, completion, operation or production was carried on, conducted on or obtained from any such leased tract.

Any lease embracing lands of the State of New Mexico paying only a gention of its lands constitued hereto shall be segregated as to the portion

of and to the parties not consisted, and the torus of such lance shall a separately to such segregated particula examples of the albertive de of. Notwithstanding any of the provisions of this agreement to the conterency, Janes otherseing lands of the State of New Musice beving only a perties of the unisted herete shall dediant in full force and effect beyond the term vided therein as to all lands ediment in such lance, if unitized and are discovered and are capable of being produced in paying quantities from some part of the lands entercod in such least consisted to this agreement at the enpirmition of the secondary term of such lease; or if, at the expiration of the secondary term, the lesses or the Bait Georeter is then engaged in best fide drilling or revorking operations on some part of the lambs entraned therein shall remain in full force and effect so long as such operations are being dilignably prosecuted, and if they result in the production of unitized substances, anid lease shall continue in full force and effect as to all of the lands entercod therein, so long thereafter as unitized substances in paying quantities are being produced from any portion of said lamin.

13. <u>CONSIGNATION</u>. Operations herewader and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to state lave or regulations.

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

15. <u>COVERANTE RUN SITE LAND</u>. The covenants berein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminetes, and any grant, transfer or conveyance, of interest in land or lasses subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any working royalty or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar south after Unit Operator 19 furnished with the original, photostatic or certified copy of the instrument of transfer.

-9-

16. <u>EFFECTIVE DATE AND THE</u>. This egreement shall become effective upon approval by the Commissioner and shall terminute is two parts after such data unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during sold initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are be produced from the unitized land in paying quantities, and, should production evens, so long thereafter as diligent operations are in progress for the restoration of production or discovery of may produced as a forward. This agreement may be terminated at any time by not less then seventy-five percent (77%) on an acress basis of the commissioner. Likevise, as provided in Section 8 hereof, the failure to comply with the frilling provisions of this unit agreement shall as of the date of any such default, automatically terminate this unit agreement.

17. RATE OF FROMITION. All production and the disposel thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

18. <u>APPEARABLES.</u> Unit Operator shall, after motion to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissionser of Public Lands and the New Mexico Oil Sommervation Commission and to appeal from orders issued under the regulations of the Commissions or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expanse to appear and to participate in any such proceeding.

19. <u>MATERIE</u>. All notices, demands or statements required bereander to be given or rendered to the parties hereto shall be deemed fully given, if given in writing and personally delivered to the party or sent by postpaid, registered sail, addressed bosuch party or parties at their respective addresses

-20

er concert in connection with the signatures harete or to the retification or concert hereof or to such other address as any such party may have furmiched in writing to party semiing the motion, demad or statement.

20. <u>UNAVOIDABLE DELAY</u>. All oblightions under this agroundst requiring the Unit Operator to commune or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agroement shall be suspended while, but only so long as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such oblightions, in whole in part, by strikes, war, acts of God, Pederel, State or municipal law or agencies, upevoidable secidents, uncontrollable delays in transportation, insbility to obtain mecassary unterials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters berein ammerated or not.

21. LOSE OF TITLE. In the event title to say tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder because impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminsted from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the Unit Operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of Nev Nexico shall be withheld. Unit Operator as such is relieved from any responsibility for any defact or failure of any title hereunder.

22. <u>SUPER-JUERT JOINDER</u>. Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner may be committed hereto by the owner of owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for

-11-

the allocation of mosts of exploration, development and operation. After operations are commanded hermunder, the right of subsequent joinder by a wonting interest owner shall be subject to all the requirements of any applisable operating agreement between the working interest consers relative to the allocation of costs of exploration, development and operation. A submemory joinder shall be effective as of the first day of the month following the filing with the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties before participating in any benefits heremeter shall be required to assume and pay to Unit Óperator their propertiemete share of the unit expense insurred prior to such party's or parties' joinder in the unit agreement, and the Unit Operator shall make appropriate adjustments coused by such joinder, without any retroactive adjustment of revenue.

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

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

-19-

ma September 6, 1957

UNION OIL COMPANY OF CALIFORNIA . E.R. Attrill sas 7-10-1005

2

ILLEGIBLE