

**UNIT AGREEMENT**  
**FOR THE**  
**DEVELOPMENT & OPERATION**  
**OF THE**  
**E-K QUEEN UNIT**  
**LEA COUNTY, NEW MEXICO**

<b>BEFORE EXAMINER NUTTER</b>	
OIL CONSERVATION COMMISSION	
EXHIBIT NO.	1
CASE NO.	3255

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
E-K QUEEN UNIT  
LEA COUNTY, NEW MEXICO

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
E-K QUEEN UNIT  
LEA COUNTY, NEW MEXICO

TABLE OF CONTENTS

<u>Section</u>		<u>Page</u>
	Preliminary Recitals	
	ARTICLE 1	
	ENABLING ACT AND REGULATIONS	2
	ARTICLE 2	
	DEFINITIONS	
2.1	Commissioner	2
2.2	Commission	2
2.3	Director	2
2.4	Secretary	2
2.5	Department	2
2.6	Supervisor	2
2.7	Queen Sand or Queen Formation	2
2.8	Unitized Formation	3
2.9	Unitized Substances	3
2.10	Working Interest	3
2.11	Working Interest Owner	3
2.12	Royalty Interest or Royalty	3
2.13	Royalty Owner	3
2.14	Unit Operating Agreement	3
2.15	Paying Quantities	3
2.16	Tract Ultimate Primary Recovery	3
2.17	Unit Area Ultimate Primary Recovery	4
2.18	Tract	4
	ARTICLE 3	
	UNIT AREA	4
	ARTICLE 4	
	EXHIBITS	
4.1	Exhibits	4
4.1.1	Exhibit "A"	4
4.1.2	Exhibit "B"	4
4.2	Reference to Exhibits	5
4.3	Exhibits Considered Correct	5
4.4	Correcting Errors	5
4.5	Filing Revised Exhibits	5

<u>Section</u>	<u>Page</u>
ARTICLE 5 EXPANSION	
(a)	5
(b)	5
(1)	6
(2)	6
(3)	6
ARTICLE 6 UNITIZED LAND AND UNITIZED SUBSTANCES	6
ARTICLE 7 UNIT OPERATOR	7
ARTICLE 8 RESIGNATION OR REMOVAL OF UNIT OPERATOR	7
ARTICLE 9 SUCCESSOR UNIT OPERATOR	8
ARTICLE 10 ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT	8
ARTICLE 11 RIGHTS AND OBLIGATIONS OF UNIT OPERATOR	9
ARTICLE 12 PLAN OF OPERATIONS	9
ARTICLE 13 TRACT PARTICIPATION	10
ARTICLE 14 TRACTS QUALIFIED FOR UNIT PARTICIPATION	10
(a)	11
(b)	11
(c)	11
ARTICLE 15 ALLOCATION OF UNITIZED SUBSTANCES	12
ARTICLE 16 ROYALTY SETTLEMENT	14
ARTICLE 17 RENTAL SETTLEMENT	15

<u>Section</u>	<u>Page</u>
ARTICLE 18 CONSERVATION	15
ARTICLE 19 DRAINAGE	16
ARTICLE 20 LEASES AND CONTRACTS CONFORMED AND EXTENDED	
(a)	16
(b)	16
(c)	16
(d)	17
(e)	17
(f)	17
ARTICLE 21 CORRECTION OF ERRORS	17
ARTICLE 22 COVENANTS RUN WITH LAND	18
ARTICLE 23 EFFECTIVE DATE AND TERM	
(a)	18
(b)	19
ARTICLE 24 RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION	20
ARTICLE 25 NONDISCRIMINATION	20
ARTICLE 26 APPEARANCES	20
ARTICLE 27 NOTICES	20
ARTICLE 28 NO WAIVER OF CERTAIN RIGHTS	21
ARTICLE 29 UNAVOIDABLE DELAY	21
ARTICLE 30 LOSS OF TITLE	21

<u>Section</u>	<u>Page</u>
ARTICLE 31 CONFLICT OF SUPERVISION	22
ARTICLE 32 BORDER AGREEMENTS	22
ARTICLE 33 NONJOINDER AND SUBSEQUENT JOINDER	22
ARTICLE 34 NO PARTNERSHIP	23
ARTICLE 35 OIL IN LEASE TANKAGE ON EFFECTIVE DATE	24
ARTICLE 36 PERSONAL PROPERTY EXCEPTED	24
ARTICLE 37 TAXES	24
ARTICLE 38 COUNTERPARTS	25

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
E K QUEEN UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of January, 1965, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto",

W I T N E S S E T H:

WHEREAS, The parties hereto are the owners of Working, Royalty, or other Oil and Gas Interests in the Unit Area subject to this agreement; and

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

WHEREAS, The Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 7-11-39 N. M. Statutes 1953 Annotated) to consent to or approve this agreement on behalf of the State of New Mexico, 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 (Article 3, Chapter 65, Vol. 9, Part 2, 1953 Statutes), to approve this agreement and the conservation provisions hereof; and

WHEREAS, The parties hereto hold sufficient interests in the E-K Queen 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 institute a program of secondary recovery to conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the Area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, In consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their

respective interests in the below-defined Unit Area, and agree severally among themselves as follows:

## ARTICLE 1

### ENABLING ACT AND REGULATIONS

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

## ARTICLE 2

### DEFINITIONS

For the purpose of this agreement, the following terms and expressions as used herein shall mean:

2.1 Commissioner is defined as the Commissioner of Public Lands of the State of New Mexico.

2.2 Commission is defined as the Oil Conservation Commission of the State of New Mexico.

2.3 Director is defined as the Director of the United States Geological Survey.

2.4 Secretary is defined as the Secretary of the Interior of the United States of America.

2.5 Department is defined as the Department of the Interior of the United States of America.

2.6 Supervisor is defined as the Oil and Gas Supervisor of the Branch of Oil and Gas Operation, United States Geological Survey.

2.7 Queen Sand or Queen Formation is defined as and shall mean those heretofore established underground reservoirs that exist in the interval from the top of the Queen Sand or Artesia Red Sand member as is picked at 4352 feet on the Gamma Ray-Neutron log in the Carper Drilling Company's #9 Carper Sivley located in the Northwest one-quarter of the Southeast one-quarter (NW/4 SE/4) of Section 24, Township 18 South, Range 33 East, N.M.P.M. 300 feet



downward and including the Penrose Sand Member, all included in the Queen Formation of the Guadalupe Series, a part of the Permian System, insofar as the same lies within the Unit Area.

2.8 Unitized Formation is defined as the portion of the Queen Formation effectively committed to this agreement.

2.9 Unitized Substances is defined as and shall mean all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquids or liquefiable hydrocarbons within or produced from the Unitized Formation.

2.10 Working Interest is defined as the right to search for, produce and receive a portion of the Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, or otherwise, including a carried Working Interest Owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substance from the Unitized Formation and operating thereof hereunder.

2.11 Working Interest Owner is defined as and shall mean any party hereto owning a Working Interest.

2.12 Royalty Interest or Royalty is defined as an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the Royalty Interest reserved by the lessor by an oil and gas lease and any overriding Royalty Interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

2.13 Royalty Owner is defined as and shall mean the owner of a Royalty Interest.

2.14 Unit Operating Agreement is defined as and shall mean any agreement or agreements (whether one or more) entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Article 10, infra, and shall be styled "Unit Operating Agreement, E-K Queen Unit, Lea County, New Mexico."

2.15 Paying Quantities is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells on the unitized lands.

2.16 Tract Ultimate Primary Recovery is defined as total cumulative amount of oil produced from such Tract to September 1, 1962, as reported to the State Oil Conservation Commission, plus the number of barrels of oil heretofore approved by the Working Interest Owners as remaining oil reserves from such Tract on September 1, 1962.

2.17 Unit Area Ultimate Primary Recovery is defined as total cumulative amount of oil produced from the Unitized Formation to September 1, 1962, as reported to the State Oil Conservation Commission, plus the number of barrels of oil heretofore approved by the Working Interest Owners as remaining oil reserves from the Unitized Formation on September 1, 1962.

2.18 Tract means each parcel of land described as such and given a Tract number in Exhibit "B".

### ARTICLE 3

#### UNIT AREA

The following described land is hereby designated and recognized as constituting the Unit Area:

Township 18 South, Range 33, East, N.M.P.M.

All of Section 13;  
All of Section 14;  
Section 23: NE/4, NW/4 and N/2 of the SE/4;  
Section 24: NE/4, NW/4, SE/4, N/2 of the SW/4 and  
SE/4 of the SW/4;

Township 18 South, Range 34 East, N.M.P.M.

Section 18: NW/4 of the NW/4, S/2 of the NW/4,  
SW/4, W/2 SE/4

Section 19: NW/4, N/2 SW/4, SW/4 SW/4;

containing 2,895.36 acres, more or less, in Lea  
County, New Mexico.

### ARTICLE 4

#### EXHIBITS

4.1 Exhibits. Attached hereto are the following exhibits which are incorporated herein by reference:

4.1.1 Exhibit "A", which is a map showing, to the extent known to the Unit Operator, the Unit Area and the boundaries and identity of Tracts and leases in said Unit Area.

4.1.2 Exhibit "B", which is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentage ownership of each Working Interest Owner in each Tract, and the percentage of participation each Tract has in the Unit Area.

4.2 Reference to Exhibits. When reference herein is made to an exhibit, the reference is to the exhibit as originally attached, or, if revised, to the latest revision.

4.3 Exhibits Considered Correct. An exhibit shall be considered to be correct until revised as herein provided.

4.4 Correcting Errors. The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse Royalty or Working Interest Ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit.

4.5 Filing Revised Exhibits. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes render such revision necessary, and at least two copies of such revision shall be filed with the Commissioner, and not less than six copies thereof shall be filed with the Supervisor.

## ARTICLE 5

### EXPANSION

The above described Unit Area may when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable to conform with the purposes of this agreement. Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into this Unit, shall file an application therefor with Unit Operator requesting such admission.

(b) After preliminary concurrence by the Director and Commissioner, Unit Operator shall circulate a notice to each Working Interest Owner of the Proposed expansion, setting out the basis for admission, the Unit Participation to be assigned to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if ninety per cent (90%) of the Working Interest Owners (on the basis of Unit Participation) have agreed to such Tract or Tracts being brought into the Unit, then Unit Operator shall:

(1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Unit Participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice; and

(2) Deliver copies of said notice to the Commissioner, Director, each Working Interest Owner (mailing copy of such notice to the last known address of each such Working Interest Owner) and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon expiration of said thirty (30) day period as set out in (2) immediately above and provided that objections of not more than ten per cent (10%) of the Working Interest Owners have been filed thereto, with the Commission, Commissioner, and the Director the following: (a) Comprehensive statement as to mailing such notice of expansion; (b) An application for such expansion; and (c) An instrument containing the appropriate joinders in compliance with the participation requirements of Article 14, *infra*.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commission, Commissioner and the Director, become effective as of the date prescribed in the notice thereof or on such other date as set by the Commission, Commissioner, and the Director in the order or instrument approving such expansion.

## ARTICLE 6

### UNITIZED LAND AND UNITIZED SUBSTANCES

All land committed to this agreement as to the Queen sand as defined under Unitized Formation, shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in or produced from said Unitized Formation of the "unitized land" are unitized under the terms of this agreement and herein are called "Unitized Substances". Surface rights of ingress and egress shall be maintained for the benefit of the Unit.

Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation.

## ARTICLE 7

### UNIT OPERATOR

Socony Mobil Oil Company, Inc. is hereby designated as Unit Operator, and by signing this Instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of 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.

## ARTICLE 8

### RESIGNATION OR REMOVAL OF UNIT OPERATOR

Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Commissioner and the Supervisor, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the owners of seventy-five per cent (75%) of the committed Working Interests (on the basis of Unit Participation) exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and the Director.

In all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such

Unit Operator shall deliver possession of all equipment, books, and records, materials, appurtenances and any other assets, used in conducting the Unit Operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly qualified successor Unit Operator or Unit Manager or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

## ARTICLE 9

### SUCCESSOR UNIT OPERATOR

Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall by affirmative vote of at least seventy-five per cent (75%) of their voting interest, based upon the percentages of participation as shown on Exhibit "B", select a successor Unit Operator, provided, however, that should any Working Interest Owner own a voting interest of more than twenty-five per cent (25%), the vote of said party shall not serve to disapprove the selection of a new Unit Operator approved by eighty per cent (80%) or more of the voting interests of the remaining Working Interest Owners, and provided further that the Unit Operator shall not vote to succeed itself. 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) written notice of such selection shall have been filed with the Supervisor and approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and Commissioner at their election may declare this agreement terminated.

## ARTICLE 10

### ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit

Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner and three true copies thereof shall be filed with the Supervisor, prior to approval of this agreement.

#### ARTICLE 11

##### RIGHTS AND OBLIGATIONS OF UNIT OPERATOR

Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request by Unit Operator, 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 his capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

#### ARTICLE 12

##### PLAN OF OPERATIONS

It is recognized and agreed by the parties hereto that all of the land subject to this agreement is reasonably proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this agreement is to formulate and to put into effect a secondary recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Supervisor, the Commission, and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, and any other substance or a combination of any of said substances, whether produced from the Unit Area or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Commission, the Commissioner, and the Supervisor monthly, injection and production reports for each well in the Unit. The Working Interest Owners, the Supervisor, the Commission, and the Commissioner, shall be furnished periodical reports on the progress of the plan of operation and any revisions or changes thereto;

provided however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Supervisor, the Commission, and the Commissioner.

The initial plan of operation shall be filed with the Supervisor, the Commission, and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor, the Commission, and the Commissioner may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence secondary recovery operations on the Unit Area within six (6) months after the effective date of this agreement, or any reasonable extension thereof approved by the Commission, the Commissioner and the Supervisor, or this Agreement shall terminate automatically, in which latter event Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

#### ARTICLE 13

##### TRACT PARTICIPATION

Exhibit "B" attached hereto shows the participation allocated to each Tract in the Unit Area. The formula as used for the calculations of such participation percentages is as follows:

$$\text{Participation} = 100\% \frac{\text{Tract Ultimate Primary Recovery}}{\text{Unit Area Ultimate Primary Recovery}}$$

The percentages of participation set forth opposite each Tract on Exhibit "B" were calculated on the basis of one hundred per cent (100%) Tract commitment. If the Unit Agreement is approved with less than one hundred per cent (100%) Tract commitment, said percentages of participation shall be revised to fit the commitment status as of the effective date hereof, and thereafter, as needed pursuant to Article 15 (Allocation of Unitized Substances).

#### ARTICLE 14

##### TRACTS QUALIFIED FOR UNIT PARTICIPATION

On and after the effective date hereof the Tracts within the Unit Area which shall be entitled to participation (as provided in Article 13 hereof) in the production of Unitized Substances therefrom



shall be those Tracts within the Unit Area and more particularly described in said Exhibit "B" that are qualified as follows:

(a) Each and all of those Tracts as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest in said Tract and Royalty Owners owning one-hundred per cent (100%) of the Royalty Interest in said Tract have subscribed, ratified or consented to this agreement; and

(b) Each and all of those Tracts in which the owners of not less than ninety-five per cent (95%) of the Working Interest therein and the owners of not less than seventy-five per cent (75%) of the Royalty Interest therein have executed this agreement, and in which the Working Interest Owners in said Tract who have executed this agreement have agreed to indemnify and hold harmless all other parties hereto, in a manner satisfactory to the owners of eighty-five per cent (85%) of the Working Interests qualified under (a), against any and all claims and demands that may be made by the nonjoining Working Interest Owners or Royalty Owners, or both, on account of the commitment and joinder of such Tract to the Unit Agreement, and operation thereof under such conditions on the basis herein provided, and as to which the owners of eighty-five per cent (85%) of the Working Interests qualified under (a), exclusive of the Working Interest Owner submitting such Tract, have approved the commitment of such Tract to this Unit Agreement.

(c) Each Tract as to which Working Interest Owners owning less than 100% of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for inclusion of such Tract in the Unit Area and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands which may be made by the owners of Working Interests in such Tract who are not parties hereto and which arise out of the inclusion of such Tract in the Unit Area, and

(ii) The owners of eighty per cent (80%) of the committed Working Interest in all Tracts meeting the requirements of Subsection (a) and (b) have voted in favor of the inclusion of such Tract and acceptance of the indemnity agreement.

Upon the inclusion of such a Tract in the Unit Area, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed

to the Working Interest Owners in such Tract who have become parties to such agreements, in proportion to their respective Working Interests in the Tract.

If, on the effective date of this agreement, there is any Tract or Tracts which have not been effectively committed to and made subject to this agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this agreement for final approval by the Commissioner and the Director, or as promptly thereafter as practicable, file therewith a schedule of those Tracts which have been committed and made subject to this agreement and are entitled to participate in the production from the unitized land hereunder. Said schedule shall set forth opposite each such committed Tract the lease number and assignment number, the owner of record of the lease, and the percentages of participation of such Tract which shall be computed according to the participation formula set out in Article 13 (Tract Participation) above. This schedule of participation shall be a part of Exhibit "B" and upon approval thereof by the Commissioner and the Supervisor shall become a part of this agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Commissioner and the Director, or the Supervisor.

#### ARTICLE 15

##### ALLOCATION OF UNITIZED SUBSTANCES

All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the respective Tract Participation then effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedules of participation in Exhibit "B". The amount of Unitized Substances so allocated to each Tract, and only that amount, (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to the parties executing, consenting to or ratifying this agreement entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tracts, or in the proceeds thereof, had this agreement not been entered into; and with the same legal force and effect.

No Tract committed to this agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances, and nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the joinder and qualification of any Tract.

If any Working Interest or Royalty Interest in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on unitized land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Article 16 (Royalty Settlement) hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unit Area currently as and when produced, then so long as such conditions continue, Unit Operator, for the account and at the expense of such party and in order to avoid curtailing the operation of the Unit Area, may buy, sell or otherwise dispose of such production to itself or others on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such party shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner for payment to the parties entitled thereto under existing contracts.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all Royalty on the lease or leases and Tracts contributed by it and received into the Unit, and each such party shall hold each other party hereto harmless against all claims, demands and causes of action for such Royalty on the lease or leases and Tracts contributed by it and received into the unitized land.

If, after the effective date of this agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Article 5 (Unit Area) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Article 33 (Nonjoinder and Subsequent Joinder), or if any Tract is excluded from the Unit Area as provided for in Article 30 (Loss of Title), the schedules of participation as shown in Exhibit "B", subject to Article 13 (Tract Participation) or Article 33 (Non-joinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Commissioner, and the Director to show the new percentages of participation of all the then effectively committed Tracts; and the revised schedules, upon approval by the Commissioner and the Supervisor, shall govern all the allocation of production from and after the effective date thereof until a new schedule is so approved.

#### ARTICLE 16

##### ROYALTY SETTLEMENT

The State of New Mexico and the United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this agreement is introduced into the Unitized Formation, for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan approved pursuant to Article 12 (Plan of Operations), a like amount of gas, less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation, Royalty free as to dry gas but not as to the products extracted therefrom; provided such withdrawal shall be pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor and the Commissioner; and provided further that such right of withdrawal shall terminate as of the effective date of termination of the Unit Agreement.

All royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts committed hereto, in lieu of actual production from such Tract or Tracts.

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

Royalty due the State of New Mexico shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all Unitized Substances on the basis of the amounts thereof allocated to unitized State land as provided herein at the rates specified in the respective State leases.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

#### ARTICLE 17

##### RENTAL SETTLEMENT

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

#### ARTICLE 18

##### CONSERVATION

Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery

of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

## ARTICLE 19

### DRAINAGE

The 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.

## ARTICLE 20

### LEASES AND CONTRACTS CONFORMED AND EXTENDED

The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement.

Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

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

(b) Drilling, producing or secondary recovery operations performed hereunder upon any Tract of unitized lands shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

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

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for so long as such land remains committed hereto.

(e) The segregation of any Federal lease committed to this agreement is governed by the following provisions in the fourth paragraph of Sec. 17 (j) of said Act of February 25, 1920, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease hereafter committed to any such plan (unit) embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two (2) years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(f) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been, discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

## ARTICLE 21

### CORRECTION OF ERRORS

It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors

which might exist in the pertinent exhibits to this agreement; provided however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of the Commissioner, the Supervisor, and the Working Interest Owners.

## ARTICLE 22

### COVENANTS RUN WITH LAND

The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

## ARTICLE 23

### EFFECTIVE DATE AND TERM

This agreement shall become binding upon each party as of the date such party signs the instrument by which it becomes a party hereto; and, unless sooner terminated as hereinafter provided, shall become effective as to qualified Tracts after approval by the Director at the time and date as determined by the Working Interest Owners in all the qualified Tracts, and set forth in a certificate filed for record by Unit Operator in Lea County, New Mexico. The certificate shall also recite the percentage of the Unit Area represented by the Tracts qualified under Article 14, the book and page in which a counterpart of this agreement has been recorded, and the case number and order number of the order of approval by Governmental authority, if obtained. The certificate shall not be filed until after the following requirements have been met:

(a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners owning a combined Unit Participation of at least ninety-five per cent (95%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy-five per cent (75%) of the Royalty Interest, in said Unit Area; and



(b) The approval of this agreement by the Commissioner, the Secretary or his duly authorized representative, and the Commission.

If (a) and (b) above are not accomplished on or before January 1, 1966, this agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners owning a combined Unit Participation of at least ninety per cent (90%) committed to this agreement have decided to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a) and (b) are not accomplished on or before said extended expiration date, this agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect. For the purpose of this Article, ownership shall be computed on the basis of Unit Participation as determined from Exhibit "C" attached to the Unit Operating Agreement.

Unit Operator shall, within thirty (30) days after the effective date of this agreement, file for record a certificate to the effect that this agreement has become effective according to its terms and stating further the effective date and the location of the governmental agency offices where copies of this agreement are filed.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated with the approval of the Commissioner and the Director by Working Interest Owners owning seventy-five per cent (75%) Unit Participation whenever such Working Interest Owners determine that Unit Operations are no longer profitable, feasible, or in the interest of conservation. Notice of any such termination shall be given by Unit Operator to all parties hereto.

Upon termination of this agreement, the further development and operation of the Unit Area as a Unit shall be abandoned, Unit Operations shall cease, and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts.

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

## ARTICLE 24

### RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION

All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, at his discretion, the rate of prospecting and development and within the limits made or fixed by the Commission to alter or 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 developing in the absence of 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.

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

## ARTICLE 25

### NONDISCRIMINATION

In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 301 (1) to (7) inclusive, of Executive Order 10925, as Amended, (28 F.R. 6485), which are hereby incorporated by reference in this agreement.

## ARTICLE 26

### APPEARANCES

Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner, the Department, and the Commission, and to appeal from any order issued under the rules and regulations of the Commissioner, the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner, the Department, or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

## ARTICLE 27

### NOTICES

All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed

fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

#### ARTICLE 28

##### NO WAIVER OF CERTAIN RIGHTS

Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the United States or of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

#### ARTICLE 29

##### UNAVOIDABLE DELAY

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

#### ARTICLE 30

##### LOSS OF TITLE

In the event title to any Tract of unitized land shall fail so as to render the Tract inoperable under this agreement and the true owner cannot be induced to join this Unit Agreement, such Tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, Working Interest or other interest subject thereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State or Federal land or leases, no payments of funds due the State of New Mexico or the United States of America shall be

withheld, but such funds shall be deposited as directed by the Commissioner or the Supervisor (as the case may be), to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

#### ARTICLE 31

##### CONFLICT OF SUPERVISION

Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto and the Commission agree that all powers and authority vested in the Commission in and by any provisions of this agreement 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.

#### ARTICLE 32

##### BORDER AGREEMENTS

Subject to the approval of the Supervisor and the Commissioner, the Unit Operator, with concurrence of sixty-five per cent (65%) of the Working Interest Owners, based upon the percentages of participation may enter into a border protection agreement or agreements with the Working Interest Owners of adjacent lands along the boundaries of the Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

#### ARTICLE 33

##### NONJOINDER AND SUBSEQUENT JOINDER

If the owner of any substantial interest in a Tract within the Unit Area fails or refuses to subscribe, ratify, or consent in writing to this agreement, the Working Interest Owner in that Tract who has executed or ratified this agreement may withdraw said Tract from this

agreement by written notice to the Director, the Commissioner, and Unit Operator prior to the effective date of this agreement. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Unit Agreement.

Any Oil or Gas Interest in the lands in the Unit Area not committed hereto prior to submission of this agreement to the Commissioner and the Director for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Article and of Article 14 (Tracts Qualified for Unit Participation) hereof, at any time up to the effective date hereof.

It is understood and agreed, however, that from and after the effective date hereof, the right of subsequent joinder as provided in this Article, shall be subject to such requirements or approvals and on such basis as may be agreed upon by ninety per cent (90%) of the Working Interest Owners (based upon the percentages of participation). Such joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this agreement and the Unit Operating Agreement. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this agreement shall be effective at 7:00 a.m. as of the first day of the month following the filing with the Commissioner and the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this agreement, unless objection to such joinder by the Commissioner or the Director is duly made within sixty (60) days after such filing and such joinder is approved by the Commissioner as to State lands.

#### ARTICLE 34

##### NO PARTNERSHIP

It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, expressed or implied, or any operations conducted hereunder, shall create or be deemed to create a partnership or association between the parties hereto or any of them.

## ARTICLE 35

### OIL IN LEASE TANKAGE ON EFFECTIVE DATE

Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil in such tanks, above the pipe line connections, as of 7:00 a.m. on the effective date hereof. All such oil as is a part of the prior allowable of the well or wells from which the same was produced shall be and remain the property of the Working Interest Owners entitled thereto the same as if the Unit had not been formed, and such Working Interest Owners shall promptly remove said oil from the Unit Area. Any such oil not so removed may be sold by the Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty Owners under the terms and provisions of the applicable lease or leases and other contracts. All such oil and gas in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any Tract is overproduced with respect to the allowable of the well or wells on that Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

## ARTICLE 36

### PERSONAL PROPERTY EXCEPTED

All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands subject to this Agreement shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

## ARTICLE 37

### TAXES

Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing

said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

#### ARTICLE 38

#### COUNTERPARTS

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

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

SOCONY MOBIL OIL COMPANY, INC.

Date \_\_\_\_\_

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

MARATHON OIL COMPANY

Date \_\_\_\_\_

By \_\_\_\_\_

SOHIO PETROLEUM COMPANY

Date \_\_\_\_\_

By \_\_\_\_\_

TEXACO INC.

Date \_\_\_\_\_

By \_\_\_\_\_

SINCLAIR OIL & GAS COMPANY

Date \_\_\_\_\_

By \_\_\_\_\_

JOSEPH I. O'NEILL, JR.

Date \_\_\_\_\_

By \_\_\_\_\_

THE STATE OF TEXAS

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared \_\_\_\_\_, as Attorney in Fact for SOCONY MOBIL OIL COMPANY, INC., known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed said instrument as the act of SOCONY MOBIL OIL COMPANY, INC., and for the purposes and consideration therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, A.D. 1965.

My Commission Expires:

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

---

THE STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

BEFORE ME, the undersigned authority, on this day personally appeared \_\_\_\_\_, as \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed said instrument as the act of \_\_\_\_\_, and for the purposes and consideration therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, A.D. 1965.

My Commission Expires:

\_\_\_\_\_  
Notary Public in and for  
\_\_\_\_\_ County, \_\_\_\_\_

---

THE STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

BEFORE ME, the undersigned authority, on this day personally appeared \_\_\_\_\_, known to me to be the person whose name \_\_\_\_\_ 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 \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_  
Notary Public in and for  
\_\_\_\_\_ County, \_\_\_\_\_



THE STATE OF TEXAS

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared \_\_\_\_\_, as Attorney in Fact for SOCONY MOBIL OIL COMPANY, INC., known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed said instrument as the act of SOCONY MOBIL OIL COMPANY, INC., and for the purposes and consideration therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, A.D. 1965.

My Commission Expires:

\_\_\_\_\_

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

---

THE STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

BEFORE ME, the undersigned authority, on this day personally appeared \_\_\_\_\_, as \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed said instrument as the act of \_\_\_\_\_, and for the purposes and consideration therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, A.D. 1965.

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for  
\_\_\_\_\_ County, \_\_\_\_\_

---

THE STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

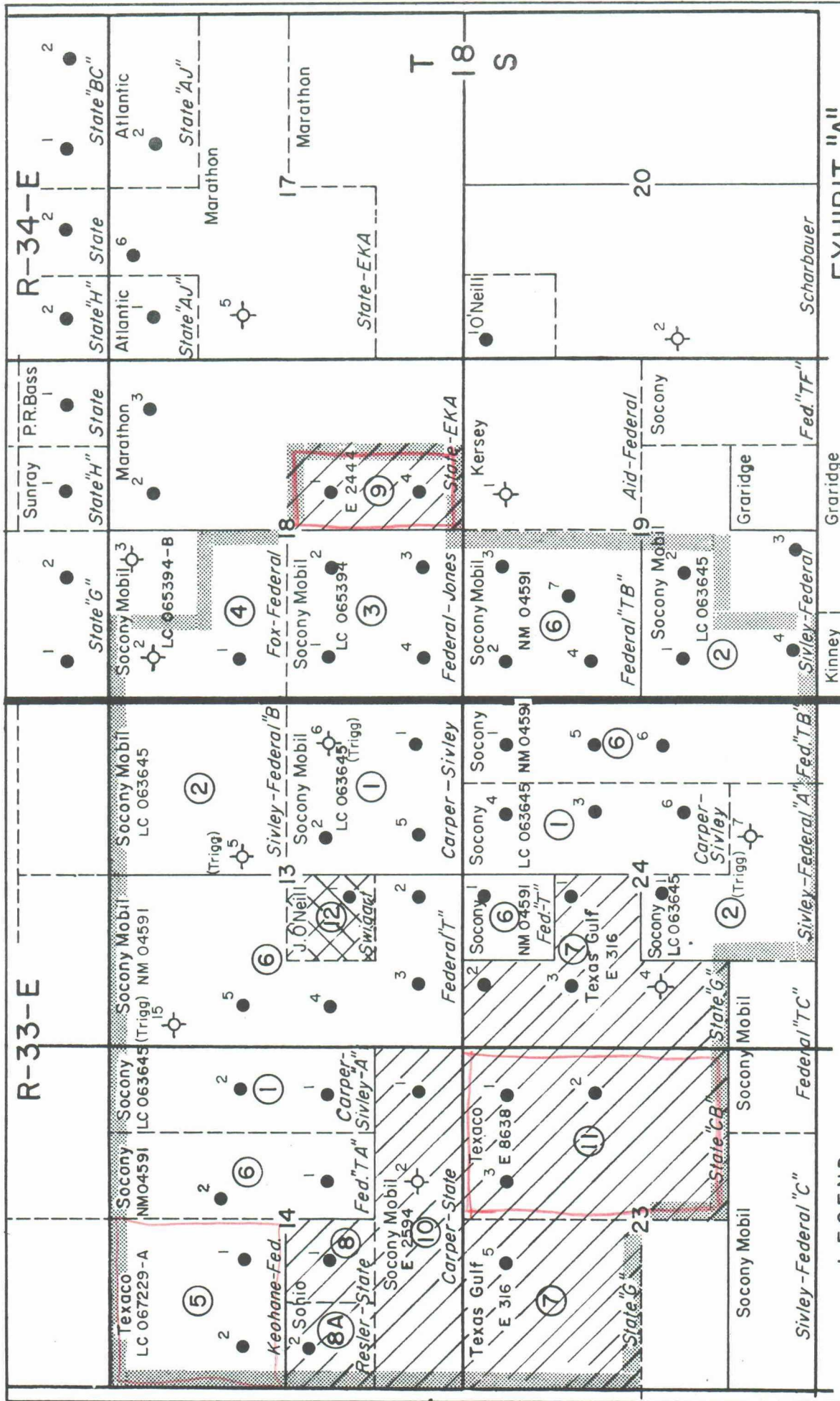
BEFORE ME, the undersigned authority, on this day personally appeared \_\_\_\_\_, known to me to be the person whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for  
\_\_\_\_\_ County, \_\_\_\_\_



### LEGEND

	Proposed unit boundary		Tract number
	Federal	1975.36 Ac.	68.2%
	State	880.00 Ac.	30.4%
	Fee	40.00 Ac.	1.4%
	Totals	2895.36 Ac.	100.0%

### EXHIBIT "A"

## E-K QUEEN UNIT AREA

Lea County, New Mexico

Scale: 1" = 2000'

T.G. 9-18-64 M.L.R.

**EXHIBIT "B"**  
TO  
**UNIT AGREEMENT**  
**E-K QUEEN UNIT**  
**LEA COUNTY, NEW MEXICO**

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. AND DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION
<b>FEDERAL LANDS</b>								
1	<u>Township 18 South, Range 33 East</u> Sec. 13: SE/4 Sec. 14: NE/4 SE/4, E/2 NE/4 Sec. 24: W/2 NE/4, NW/4 SE/4	400.00	LC-063645 11-1-46	U.S.A. 12½%	Carper Drilling T. J. Sivley	Carper Drlg. Co. 21.875% T. J. Sivley 21.875% John H. Trigg 30.925%	Socony Mobil Oil Co., Inc. 100%	22.43622
2	<u>Township 18 South, Range 34 East</u> Sec. 19: Lots 3, 4, NE/4 SW/4 <u>Township 18 South, Range 33 East</u> Sec. 13: NE/4 Sec. 24: SW/4 SE/4, E/2 SW/4	394.69	LC-063645 11-1-46	U.S.A. 12½%	T. J. Sivley	John H. Trigg P.P.-61.550%	Socony Mobil Oil Co., Inc. 100%	10.91465
3	<u>Township 18 South, Range 34 East</u> Sec. 18: Lots 3, 4, E/2 SW/4	153.57	LC-065394 7-1-51	U.S.A. 12½%	R. J. Jones	Carper Drlg. Co. O.P. 20.625% R.J. Jones O.P.- 5.000% T.J. Sivley 20.625% John H. Trigg 29.175%	Socony Mobil Oil Co., Inc. 100%	11.09519
4	<u>Township 18 South, Range 34 East</u> Sec. 18: Lots 1, 2, SE/4 NW/4	112.95	LC-065394-B 7-1-51	U.S.A. 12½%	Union Supply	John H. Trigg P.P. 61.550%	Socony Mobil Oil Co., Inc. 100%	01.81350
5	<u>Township 18 South, Range 33 East</u> Sec. 14: NW/4	160.00	LC-067229-A 12-1-53	U.S.A. 12½%	Texaco Inc.	J.C. Keshane: 1-1/2% E.W. Chaney: 3/4 of 1% R.C. Bell: 3/4 of 1%	Texaco Inc. 100%	03.78028
6	<u>Township 18 South, Range 33 East</u> Sec. 13: NW/4, W/2 SW/4, SE/4 SW/4 Sec. 24: NE/4 NW/4, E/2 E/2 Sec. 14: NW/4 SE/4, W/2 NE/4	754.15	NM-04591 12-1-53	U.S.A. 12½%	John H. Trigg	John H. Trigg P.P. 61.550%	Socony Mobil Oil 100%	30.25253

TRACT NUMBER	DESCRIPTION	SERIAL NO. NUMBER OF ACRES	AND DATE OF LEASE	BASIC ROYALTY	LESSOR OF RECORD	OVERRIDE ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION
FEDERAL LANDS CONT'D.								
6	Township 18 South, Range 34 East							
Cont'd.	Sec. 19: Lots 1, 2, E/2 NW/4							
TOTAL: SIX FEDERAL TRACTS - - 1975.36 ACRES OR 68.2% OF UNIT AREA								

STATE LANDS								
7	Township 18 South, Range 33 East	320.00	E-316	State	Texas Gulf Pro-	None	Sinclair Oil & Gas	08.71329
	Sec. 23: NW/4		5-10-45	12 3/4%	ducing Company		100%	
	Sec. 24: NW/4 NW/4, S/2 NW/4,							
	NW/4 SW/4							
8	Township 18 South, Range 33 East	40.00	E-744	State	International	International	Well No. 1	00.92872
	Sec. 14: NE/4 SW/4		2-11-46	12 3/4%	Oil & Gas Co.	Oil & Gas Co.	Sohio Pet. Co.	
					6.250%		66.67%	
							Broseco Corp.	
							31.66%	
							J. C. Rich	
							1.67%	
8-A	Sec. 14: NW/4 SW/4	40.00	E-744	State	International	International	Well No. 2	00.93296
			2-11-46	12 3/4%	Oil & Gas Co.	Oil & Gas Co.	Sohio Pet. Co.	
					6.250%		16.667%	
							Broseco Corp.	
							82.916%	
							J. C. Rich	
							.417%	
9	Township 18 South, Range 34 East	80.00	E-2444	State	Marathon Oil Co.	None	Marathon Oil Co.	01.88655
	Sec. 18: W/2 SE/4		2-10-49	12 3/4%			100%	
10	Township 18 South, Range 33 East	160.00	E-2594	State	Carper Drilg. Co.	Carper Drilg. Co.	Socony Mobil Oil	00.61361
	Sec. 14: S/2 S/2		4-11-49	12 3/4%		O.P. 20.875%	Co., Inc. 100%	
						Johnney Cockburn		
						.125%		
						Maggie Suetta Cockburn		
						1.000%		

TRACT NUMBER	DESCRIPTION	SERIAL NO. NUMBER OF ACRES	AND DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST	
						OWNER AND AMOUNT	OWNER AND AMOUNT	OWNER AND AMOUNT	UNIT PARTICIPATION
10	STATE LANDS CONT'D.								
Cont'd.						Gropco Inc. for acct. of James P. Dunigan .2046%			
						James P. Dunigan, Inc. .0295%			
						W. S. Gullahorn .0265%			
						F. M. Harrell .0126%			
						J. B. Harrell, Jr. .0493%			
						Bubba Spears .0126%			
						Republic Nat'l. Bank of Dallas Acct. of A. M. C. Corp. 2.066%			
						T. J. Sivley 21.875%			
						John H. Trigg 30.225%			
11	Township 18 South, Range 33 East Sec. 23: NE/4, N/2 SE/4	240.00	E-8638	State 12½%	Texaco Inc.	None	Texaco Inc. 100%		05.43793
TOTAL: FIVE STATE TRACTS - - - 880.00 ACRES OR 30.4% OF UNIT AREA									

FEE LANDS

12	Township 18 South, Range 33 East Sec. 13: NE/4 SW/4	40.00	2-24-55	Dorothy Swigart, Indv. & as Exx. of Estate of L.A. Swigart, Decd., & Runeor E. Swigart: 9.375%	J.I. O'Neill, Jr.	N. C. Dragisic Trustee .0121875% Empire Trust Co., Acct. of Ulster Corporation .140855% P.P.	J. I. O'Neill, Jr. 31.967% E. T. Anderson 1.100% Edwina S. Brokaw 3.483% Walter Duncan 12.242% J. Walter Duncan, Jr. 12.705%		01.19457
----	--------------------------------------------------------	-------	---------	---------------------------------------------------------------------------------------------------------------------------	-------------------	-------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------	--	----------

TRACT NUMBER	DESCRIPTION	SERIAL NO. NUMBER	AND DATE OF ACRES OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION
FEE LANDS CONT'D.								
12 Cont'd.				Norman A. Gross & Wife Marjorie Gross 9.375%			Vincent J. Duncan 4.754% Raymond T. Duncan 2.266% James G. Hanes 5.000% Roscoe C. Hobbs 2.500% Frank A. Howard 2.500% Est. of A.W. Johnson 1.750% G. Hilmer Lundbeck 3.500% A. W. McAfee 2.500% Est. of Edward L. Shea 8.500% Peter S. Shea 3.483% Florence J. Shinkle 1.750%	
TOTAL: ONE FEE TRACT - - - 40.00 ACRES OR 1.4% OF UNIT AREA								
GRAND TOTAL - - - 2895.36 ACRES OR 100% OF UNIT AREA								
								100.00000