

OCT 31 1969

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Gentlemen:

Pursuant to the application filed by J. J. Travis for approval of the the Unit Agreement for the Development and Operation of the North Shugart Queen Unit Area, we are enclosing 3 copies of the unit agreement. This case has been set down for the examiner's hearing to be held on November 5, and is No. 4247.

Yours very truly,

HINKLE, BONDURANT & CHRISTY

By Clarence E. Hinkle
CS,

CEH:cs
Enc.

OCT 31 1969

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
NORTH SHUGART QUEEN UNIT AREA
EDDY COUNTY, NEW MEXICO

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1 WHEREAS, the parties hereto hold sufficient interests
2 in the North Shugart Queen Unit Area covering the land herein-
3 after described to give reasonably effective control of opera-
4 tions therein; and

5 WHEREAS, it is the purpose of the parties hereto, to
6 enable institution and consummation of secondary recovery
7 operations, to conserve natural resources, to prevent waste
8 and secure the other benefits obtainable through development
9 and operation of the area subject to this agreement under the
10 terms, conditions and limitations herein set forth;

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

16 ARTICLE I

17 ENABLING ACT AND REGULATIONS

18 1.1 The Mineral Leasing Act of February 25, 1920, as
19 amended, supra, and all valid, pertinent regulations, including
20 operating and unit plan regulations, heretofore issued there-
21 under and valid, pertinent and reasonable regulations hereafter
22 issued thereunder are accepted and made a part of this agree-
23 ment as to Federal lands, provided such regulations are not
24 inconsistent with the terms of this agreement; and as to non-
25 Federal lands, the oil and gas operating regulations in effect
26 as of the effective date hereof governing drilling and producing
27 operations, not inconsistent with the terms hereof or the laws

1 of the state in which the non-Federal land is located, are
2 hereby accepted and made a part of this agreement.

3 ARTICLE II

4 DEFINITIONS

5 2.1 For the purpose of this agreement, the following
6 terms and expressions as used herein shall mean:

7 (a) "Commission" is defined as the Oil Conserva-
8 tion Commission of the State of New Mexico;

9 (b) "Director" is defined as the Director of the
10 United States Geological Survey;

11 (c) "Secretary" is defined as the Secretary of the
12 Interior of the United States of America;

13 (d) "Department" is defined as the Department of
14 the Interior of the United States of America;

15 (e) "Supervisor" is defined as the Oil and Gas
16 Supervisor of the United States Geological Survey for the
17 region in which the unit area is situated;

18 (f) "Unitized formation" shall mean that subsurface
19 portion of the unit area from the top of the Queen formation to
20 a depth of 200 feet below the top of the Queen formation. The top
21 of the Queen formation is more particularly identified as that
22 point of an indicated depth of 3200 feet in the following well
23 log:

24 J. J. Travis - Keohane Federal No. 1 located
25 2310 feet from the South line and 330 feet from
26 the West line of Section 21, Township 18 South,
27 Range 31 East.

1 (g) "Unitized substances" means all oil, gas,
2 gaseous substances, sulphur contained in gas, condensate,
3 distillate and all associated and constituent liquid or lique-
4 fiable hydrocarbons within or produced from the unitized formation;

5 (h) "Tract" means each parcel of land shown as such
6 and given a tract number in Exhibit "A" and as described in
7 Exhibit "B";

8 (i) "Tract participation" is defined as the percen-
9 tage of participation as shown on Exhibit "C" for allocating
10 unitized substances to a tract under this agreement;

11 (j) "Unit participation" as used herein shall mean
12 the sum of the tract participations as shown on Exhibit "C" for
13 each working interest owner;

14 (k) "Working interest" is defined as the right to
15 search for, produce and acquire unitized substances whether held
16 as an incident of ownership of mineral fee simple title, under
17 an oil and gas lease, or otherwise held;

18 (l) "Working interest owner" is defined as and
19 shall mean any party hereto owning a working interest, including
20 a carried working interest owner, by virtue of a lease, operating
21 agreement, or otherwise, which interest is chargeable with and
22 obligated to pay or bear, either in cash or out of production,
23 or otherwise, all or a portion of the cost of drilling, developing
24 and producing the unitized substances from the unitized formation
25 and operation thereof hereunder;

26 (m) "Royalty interest" or "royalty" is defined as an
27 interest other than a working interest in or right to receive

1 a portion of the unitized substances or the proceeds thereof
2 and includes the royalty interest reserved by the lessor by
3 an oil and gas lease and any overriding royalty interest, oil
4 payment interest, net profit contracts, or any other payment
5 or burden which does not carry with it the right to search for
6 and produce unitized substances;

7 (n) "Royalty owner" is defined as and shall mean
8 the owner of a royalty interest;

9 (o) "Unit operating agreement" is defined as and
10 shall mean any agreement or agreements (whether one or more)
11 entered into (separately or collectively) by and between the
12 unit operator and the working interest owners as provided in
13 Article IX infra, and shall be styled "Unit Operating Agreement,
14 North Shugart Queen Unit, Eddy County, New Mexico";

15 (p) "Unit manager" is defined as the person or cor-
16 poration appointed by the unit working interest owners upon resig-
17 nation or removal of the unit operator to perform the duties of
18 the unit operator until the selection and qualification of a
19 successor unit operator as provided for in Article VIII hereof.

20 (q) "Record owner" is defined as the holder of the
21 record title to a lease covering Federal lands according to the
22 applicable records of the Department of the Interior of the
23 United States of America.

24 ARTICLE III

25 UNIT AREA AND EXHIBITS

26 3.1 The following described land is hereby designated
27 as constituting the unit area, all of said land being situated
28 in Eddy County, New Mexico, to-wit:

1 Township 18 South, Range 31 East, N.M.P.M.

2 Section 20 - $E\frac{1}{2}E\frac{1}{2}$

3 Section 21 - $W\frac{1}{2}$

4 Section 28 - $NW\frac{1}{4}NW\frac{1}{4}$

5 containing 520 acres, more or less

6 3.2 Exhibit "A" attached hereto is a map showing the
7 unit area and the boundaries and identity of tracts and leases
8 in said unit area to the extent known to the unit operator.
9 Exhibit "B" attached hereto is a schedule showing, to the extent
10 known to the unit operator, the acreage comprising each tract,
11 kind of percentage of ownership of oil and gas interests in each
12 tract. Exhibit "C" is a schedule showing the percentage of
13 participation of each tract on the basis of the commitment of
14 all tracts to this agreement. However, nothing herein or in said
15 schedule or map shall be construed as a representation by any
16 party hereto as to the ownership of any interest other than such
17 interest or interests as are shown in said map or schedule as
18 owned by such party. Exhibit "A", "B" and "C" shall be revised
19 by the unit operator whenever changes in the unit area render such
20 revision necessary, or when requested by the Supervisor and the
21 required number of copies of such revision shall be filed with
22 the Supervisor.

23 3.3 The shapes and descriptions of the respective tracts
24 have been established by using the best information available.
25 If it subsequently appears that any tract, because of diverse
26 royalty or working interest ownership on the effective date hereof,
27 should be divided into more than one tract, or that any mechanical
28 miscalculation has been made, unit operator, with the approval of
working interest owners and the Supervisor, may correct the mistake
by revising the exhibits to conform to the facts. The revision

1 shall not include any re-evaluation of engineering or geological
2 interpretations used in determining tract participation. Each such
3 revision of an exhibit shall be effective at 7:00 a.m. on the first
4 day of the calendar month next following the filing for record of
5 the revised exhibit or on such other appropriate date as may be
6 determined by working interest owners and set forth in the revised
7 exhibit, and approved by the Supervisor.

8 ARTICLE IV

9 EXPANSION OF UNIT AREA

10 4.1 The above described unit area may, when practicable.
11 be expanded to include therein any additional tract or tracts
12 regarded as reasonably necessary or advisable for the purposes
13 of this agreement to conform with the purposes of this agreement.
14 Such expansion shall be effected in the following manner:

15 (a) The working interest owner or owners of a tract
16 or tracts desiring to bring such tract or tracts into this unit
17 shall file an application therefor with unit operator requesting
18 such admission.

19 (b) Unit operator shall circulate a notice of the
20 proposed expansion to each working interest owner in the unit
21 and in the tract proposed to be included in the unit, setting
22 out the basis for admission, the unit participation to be
23 assigned to each tract in the enlarged unit and other pertinent
24 data. After negotiation (at working interest owners' meeting
25 or otherwise) if working interest owners having in the aggregate
26 eighty percent (80%) participation have agreed to such tract or
27 tracts being brought into the unit, then unit operator shall,

1 after preliminary concurrence by the Director:

2 (1) Prepare a notice of proposed expansion de-
3 scribing the contemplated changes in the boundaries of the unit
4 area, the reason therefor, the basis for admission of the addi-
5 tional tract or tracts, the unit participation to be assigned
6 thereto and the proposed effective date thereof; and

7 (2) Deliver copies of said notice to the Supervisor,
8 each working interest owner and to the lessee and lessor whose
9 interests are affected, advising such parties that thirty (30)
10 days will be allowed for submission to the unit operator of any
11 objection to such proposed expansion; and

12 (3) File, upon the expiration of said thirty (30)
13 day period as set out in (2) immediately above, with the Com-
14 mission and Supervisor the following: (a) evidence of mailing
15 or delivering copies of said notice of expansion; (b) an appli-
16 cation for such expansion; (c) an instrument containing the
17 appropriate joinders in compliance with the participation
18 requirements of Article XIII (Tracts Qualified for Unit Partici-
19 pation); and (d) copy of any objections received.

20 (4) There shall be no retroactive allocation or
21 adjustment of unit expense or of interests in the unitized
22 substances produced, or proceeds thereof, prior to the effective
23 date of expansion and qualification under Article XIII; however,
24 this limitation shall not prevent an adjustment of investment
25 by reason of the enlargement.

26 4.2 The expansion shall, after due consideration of all
27 pertinent information and approval by the Commission and the

1 Supervisor, become effective as of the date prescribed in the
2 notice thereof, preferably the first day of a month subsequent
3 to the date of notice.

4 4.3 In any approved expansion of the unit area the revised
5 tract participations of those tracts which were committed prior to
6 each such expansion shall remain in the same ratio one to another..

7 ARTICLE V

8 UNITIZED LAND AND UNITIZED SUBSTANCES

9 5.1 All land committed to this agreement as to the unitized
10 formation shall constitute land referred to herein as "unitized
11 land" or "land subject to this agreement". All oil, gas, gaseous
12 substances, sulphur contained in gas, condensate, distillate and
13 all associated and constituent liquid or liquefiable hydrocarbons
14 within or produced from the lands committed to this agreement as
15 to the unitized formation are unitized under the terms of this
16 agreement and herein are called "unitized substances". Nothing
17 herein shall be construed to unitize, pool or in any way affect
18 the oil, gas and other minerals contained in or that may be pro-
19 duced from any formation other than the unitized formation as
20 above described.

21 ARTICLE VI

22 UNIT OPERATOR

23 6.1 J. J. Travis of Midland, Texas is hereby designated
24 the unit operator, and by signing this instrument as unit operator
25 he agrees and consents to accept the duties and obligations of
26 unit operator for the operation, development and production of
27 unitized substances as herein provided. Whenever reference is

1 made herein to the unit operator, such reference means the
2 unit operator acting in that capacity and not as an owner of
3 interests in unitized substances, and the term "working interest
4 owner" when used herein shall include or refer to the unit
5 operator as the owner of a working interest when such interest
6 is owned by him.

7 ARTICLE VII

8 RESIGNATION OR REMOVAL OF UNIT OPERATOR

9 7.1 Unit operator shall have the right to resign at any
10 time, but such resignation shall not become effective so as to
11 release unit operator from the duties and obligations of unit
12 operator and terminate unit operator's rights as such for a
13 period of six (6) months after written notice of intention to
14 resign has been given by unit operator to all working interest
15 owners and the Supervisor, and until all unit wells are placed in
16 a condition satisfactory to the Supervisor for suspension, abandon-
17 ment or operation, whichever is intended by the unit manager,
18 unless a new unit operator shall have taken over and assumed the
19 duties and obligations of unit operator prior to the expiration
20 of said period.

21 7.2 The resignation of unit operator shall not release
22 unit operator from any liability for any default by him hereunder
23 occurring prior to the effective date of his resignation.

24 7.3 The unit operator shall, upon default or failure in
25 the performance of his duties or obligations hereunder, be subject
26 to removal by vote of working interest owners having in the aggregate
27 seventy-five percent (75%) or more participation, after

1 excluding any unit participation of the unit operator. Such
2 removal shall be effective upon notice thereof to the Supervisor.

3 7.4 In all such instances of effective resignation or
4 removal, until a successor to unit operator is selected and
5 approved as hereinafter provided, the working interest owners
6 shall be jointly responsible for the performance of the duties
7 of the unit operator and shall not later than thirty (30) days
8 before such resignation or removal becomes effective, appoint
9 a unit manager to represent them in any action to be taken here-
10 under.

11 7.5 The resignation or removal of unit operator under
12 this agreement shall not terminate its right, title or interest
13 as the owner of a working interest or other interest in unitized
14 substances, but upon the resignation or removal of unit operator
15 becoming effective, such unit operator shall deliver possession
16 of all wells, equipment, books and records, materials, appur-
17 tenances and any other assets, used in connection with the unit
18 operations and owned by the working interest owners to the new
19 duly qualified successor unit operator or to the unit manager if
20 no such new unit operator is elected, to be used for the purpose
21 of conducting unit operations hereunder. Nothing herein shall be
22 construed as authorizing the removal of any material, equipment
23 or appurtenances needed for the preservation of any wells.
24 Nothing herein contained shall be construed to relieve or dis-
25 charge any unit operator who resigns or is removed hereunder
26 from any liability or duties accruing or performable by it prior
27 to the effective date of such resignation or removal.

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ARTICLE VIII
SUCCESSOR UNIT OPERATOR

8.1 Whenever the unit operator shall tender his resignation as unit operator or shall be removed as hereinabove provided, the working interest owners shall select a successor unit operator as herein provided. 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 Supervisor. If no successor unit operator is selected and qualified as herein provided, the Director, at his election, may declare this agreement terminated.

8.2 In selecting a successor unit operator the affirmative vote of three or more working interest owners having a total of sixty percent (60%) or more of the total voting interest in the unit shall prevail; provided that if any one working interest owner has a voting interest of more than forty percent (40%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one or more other working interest owners having a total voting interest of at least five percent (5%). If the unit operator who is removed votes only to succeed itself or fails to vote, the successor unit operator may be selected by the affirmative vote of at least seventy-five percent (75%) of the voting interest remaining after excluding any voting interest of unit operator so removed. In voting under this Article VIII each working interest owner shall have a voting interest equal to its participation.

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ARTICLE IX

ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

9.1 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 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 agreement, and in case of any inconsistency or conflict between this agreement and the unit operating agreement, this unit agreement shall prevail. Copies of any unit operating agreement executed pursuant to this article shall be filed with the Supervisor as required prior to approval of this agreement.

ARTICLE X

RIGHTS AND OBLIGATIONS OF UNIT OPERATOR

10.1 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

1 distributing the unitized substances are hereby delegated to
2 and shall be exercised by the unit operator as herein provided.
3 Upon request by unit operator, acceptable evidence of title to
4 said rights shall be deposited with said unit operator, and
5 together with this agreement, shall constitute and define the
6 rights, privileges and obligations of unit operator. Nothing
7 herein, however, shall be construed to transfer title to any
8 land or to any lease or operating agreement, it being understood
9 that under this agreement the unit operator, in its capacity
10 as unit operator, shall exercise the rights of possession and
11 use vested in the parties hereto only for the purposed herein
12 specified.

13 ARTICLE XI

14 PLAN OF OPERATIONS

15 11.1 It is recognized and agreed by the parties hereto
16 that all of the land subject to this agreement is reasonably
17 proved to be productive of unitized substances in paying quanti-
18 ties and that the object and purpose of this agreement is to
19 formulate and to put into effect a secondary recovery project
20 in order to effect additional recovery of unitized substances,
21 prevent waste and conserve natural resources consistent with
22 good engineering practices expected of a prudent operator. The
23 parties hereto agree that the unit operator may, subject to the
24 consent and approval of a plan of operation by the working
25 interest owners, the Supervisor and the Commission, inject into
26 the unitized formation through any well or wells completed
27 therein, brine, water, air, gas, oil, liquefied petroleum gases

1 and any one or more other substances or combination of substances
2 whether produced from the unitized formation or not, and that the
3 location of input wells and the rate of injection therein and the
4 rate of production shall be governed by standards of good geologic
5 and petroleum engineering practices and conservation methods.
6 Subject to like approval, the plan of operations may be revised
7 as conditions may warrant.

8 11.2 The initial plan of operations shall be filed with
9 the Supervisor and the Commission concurrently with the filing
10 of this unit agreement for final approval. Said initial plan
11 of operation and all revisions thereof shall be as complete and
12 adequate as the Supervisor and the Commission may determine to
13 be necessary for timely operation consistent herewith. Reason-
14 able diligence shall be exercised in complying with the obliga-
15 tions of the approved plan of operation. Thereafter, from time
16 to time before the expiration of any existing plan, the unit
17 operator shall submit for like approval a plan for an additional
18 specified period of operation.

19 Notwithstanding anything to the contrary herein contained,
20 if unit operator fails to commence unit operations for the second-
21 ary recovery of unitized substances from the unit area within six
22 (6) months after the effective date of this agreement or any exten-
23 sion thereof approved by the Supervisor, this agreement shall ter-
24minate automatically upon the expiration of said six (6) month
25 period.

26 11.3 The parties hereto subject to prior rights, if any,
27 grant to the unit operator the use of brine or water or both

1 from any formation in and under the unit area for injection
2 into the unitized formation and the right to use as much of the
3 surface of the land within the unit area as may reasonably be
4 necessary for unit operations insofar as these rights are granted
5 by the oil and gas leases.

6 ARTICLE XII

7 TRACT PARTICIPATION

8 12.1 In Exhibit "C" attached hereto there are listed and
9 numbered the various tracts within the unit area, and set forth
10 opposite each tract are figures which represent the percentage
11 of participation allocated to each tract in the unit area. The
12 tract participation was determined by the following formula:

13
$$\frac{\text{Tract net pore volume}}{\text{unit net pore volume}} \times 100\%$$

14 The following definitions are applicable to the above
15 formula:

16 "Net sand volume" is defined as the number of acre feet
17 in the Gray sand member of the Queen formation underlying a tract
18 which has an average porosity of 9.5 percent or greater, an
19 average permeability of 0.3 millidarcys or greater, and an oil
20 saturation of 11 percent or greater.

21 "Tract net pore volume" is defined as the net sand volume
22 underlying a tract multiplied by the average porosity.

23 "Unit net pore volume" is defined as the sum of the net
24 pore volume for all tracts qualified for participation under
25 this agreement.

26 ARTICLE XIII

27 TRACTS QUALIFIED FOR PARTICIPATION

28 13.1 As the objective of this agreement is to have lands

1 in the unit area operated and entitled to participation under
2 the terms hereof, it is agreed that, notwithstanding anything
3 else herein, no joinder shall be considered a commitment to this
4 agreement unless the tract involved is qualified under this
5 article. On and after the effective date hereof, the tracts
6 within the unit area which shall be entitled to participation
7 (as provided in Article XII hereof) in the production of unitized
8 substances therefrom shall be those tracts within the unit area
9 as shown on Exhibit "A" and described in said Exhibit "B" that
10 corner or have a common boundary and which are otherwise quali-
11 fied as follows:

12 (a) Each tract as to which working interest owners
13 owning one hundred percent (100%) of the working interest and
14 as to which record owners owning one hundred percent (100%),
15 each have become parties to this agreement and as to which royalty
16 owners owning seventy-five percent (75%) or more of the royalty
17 interest have become parties to this agreement.

18 (b) Each tract as to which working interest owners
19 owning one hundred percent (100%) of the working interest and as
20 to which record owners owning one hundred percent (100%), each
21 have become parties to this agreement, and as to which royalty
22 owners owning less than seventy-five percent (75%) of the royalty
23 interest have become parties to this agreement, and as to which
24 (1) all working interest owners and all record owners in such
25 tract have joined in a request for the commitment of such tract
26 to the unit agreement, and as to which (2) eighty percent (80%)
27 of the combined voting interests of working interest owners in

1 all tracts that meet the requirements of Article 13.1(a) above
2 have voted in favor of the commitment of such tract. For the
3 purpose of this Article 13.1(b), the voting interest of a working
4 interest owner shall be equal to the ratio that its participation
5 attributable to tracts which qualify under Article 13.1(a) bears
6 to the total participation of all working interest owners attri-
7 butable to all tracts which qualify under Article 13.1(a).

8 (c) Each tract as to which working interest owners
9 owning less than one hundred percent (100%) of the working
10 interest and as to which record owners owning one hundred percent
11 (100%) each have become parties to this agreement, regardless of
12 the percentage of royalty interest therein that is committed
13 hereto; and as to which (1) the working interest owner who operates
14 the tract and all of the other working interest owners in such
15 tract who have become parties to this agreement have joined in a
16 request for qualification of such tract for participation under
17 this unit agreement, and have executed and delivered an indemnity
18 agreement indemnifying and agreeing to hold harmless the other
19 owners of working interests committed to the unit agreement,
20 their successor and assigns, against all claims and demands that
21 may be made by the owners of working interests in such tract who
22 are not parties to this agreement, and which arise out of the
23 qualification of the tract to this unit agreement; and as to
24 which (2) eighty percent (80%) of the combined voting interest
25 of working interest owners in all tracts that meet the require-
26 ments of either Article 13.1(a) or 13.1(b) have voted in favor
27 of the qualification of such tract and to accept the indemnity

1 agreement. For the purpose of this Article 13.1(c), the voting
2 interest of each working interest owner shall be equal to the
3 ratio that its participation attributable to tracts that qualify
4 under either Article 13.1(a) or 13.1(b) bears to the total
5 participation of all working interest owners attributable to all
6 tracts which qualify under either Article 13.1(a) or 13.1(b).
7 Upon the qualification of such a tract under this unit agreement,
8 the tract participations which would have been attributed to the
9 non-subscribing owners of the working interest in such tract,
10 had they become parties to this agreement and the unit operating
11 agreement, shall be attributed to the working interest owners in
12 such tract who have become parties to such agreements, in pro-
13 portion to their respective working interests in the tract.

14 13.2 If on the effective date of this agreement there
15 is any tract or tracts which have not been effectively committed
16 to this agreement or qualified as above provided, then such tract
17 or tracts shall not be entitled to participate hereunder. Unit
18 operator shall, when submitting this agreement for final approval
19 by the Supervisor, file therewith, or as soon as practicable, a
20 schedule of those tracts which have been qualified for participa-
21 tion under this agreement and are entitled to participate in the
22 production of unitized substances. Said schedule (Exhibit "C")
23 shall set forth opposite each such committed tract the lease number
24 or assignment number, the owner of record of the lease and the
25 percentage participation of such tract which shall be computed
26 according to the participation formula set out in Article XII
27 (Tract Participation) above. Upon approval of this Exhibit "C"

1 by the Supervisor, it shall become a part of this agreement and
2 shall govern the allocation of production of unitized substances
3 until the effective date of a new Exhibit "C" approved by the
4 Supervisor.

5 ARTICLE XIV

6 ALLOCATION OF UNITIZED SUBSTANCES

7 14.1 All unitized substances produced and saved (less,
8 save and except any part of such unitized substances used in
9 conformity with good operating practices on unitized land for
10 drilling, operating, camp and other production or development
11 purposes and for pressure maintenance or unavoidable loss)
12 shall be apportioned among and allocated to the qualified tracts
13 within the unit area in accordance with the respective tract
14 participation effective hereunder during the respective periods
15 such unitized substances were produced, as set forth in Exhibit
16 "C". The amount of unitized substances so allocated to each
17 tract (regardless of whether it be more or less than the amount
18 of actual production of unitized substances from the well or
19 wells, if any, on such tract), shall, for all intents, uses and
20 purposes, be deemed to have been produced from such tract.

21 14.2 The unitized substances allocated to each tract
22 shall be distributed among, or accounted for, to the parties
23 executing, consenting to or ratifying this agreement entitled
24 to share in the production from such tract in the same manner,
25 in the same proportion, and upon the same conditions, as they
26 would have participated and shared in the production from such
27 tracts, or in the proceeds thereof, had this agreement not been

1 entered into and with the same legal force and effect.

2 14.3 No tract committed to this agreement and/or quali-
3 fied for participation as above provided shall be subsequently
4 excluded from participation hereunder on account of depletion of
5 unitized substances, and nothing herein contained shall be con-
6 strued as requiring any retroactive adjustment for production
7 obtained prior to the effective date of the joinder of any tract.

8 14.4 If the working interest and the royalty interest
9 in any tract are divided with respect to separate parcels or
10 portions of such tract and owned severally by different persons,
11 the percentage participation assigned to such tract shall, in
12 the absence of a recordable instrument executed by all owners
13 and furnished to unit operator fixing the division of ownership,
14 be divided among such parcels or portions in proportion to the
15 number of surface acres in each.

16 14.5 Subject to Article XV hereof, the unitized substances
17 allocated to each tract shall be delivered in kind to the respec-
18 tive working interest owners and parties entitled thereto by
19 virtue of the ownership of oil and gas rights therein or by pur-
20 chase from such owners. Each working interest owner and the
21 parties entitled thereto shall have the continuing right to re-
22 ceive such production in kind at a common point within the unit
23 area and to sell or dispose of the same as it sees fit. Each
24 such party shall have the right to construct, maintain and operate
25 all necessary facilities for that purpose on unitized land, pro-
26 vided the same are so constructed, maintained and operated as
27 not to interfere with operations carried on pursuant hereto.

1 Any extra expenditure incurred by unit operator by reason of
2 the delivery in kind of any portion of the unitized substances
3 shall be borne by the parties responsible therefore. If a
4 royalty owner has the right to take in kind a share of unitized
5 substances and fails to do so, the working interest owner whose
6 working interest is subject to such royalty interest shall be
7 entitled to take in kind such share of the unitized substances.

8 14.6 If any party fails to take in kind or separately
9 dispose of its share of unitized substances, unit operator shall
10 have the right for the time being and subject to revocation at
11 will by the party owning the share, to sell or otherwise dispose
12 of such production to itself or to others on a day to day basis
13 at not less than the prevailing market price in the area for
14 like production. The proceeds of the unitized substances so
15 disposed of by unit operator shall be paid to the party entitled
16 thereto.

17 14.7 Notwithstanding the foregoing, the unit operator
18 shall not make a sale into interstate commerce of any working
19 interest owner's share of gas production without first giving
20 such working interest owner sixty (60) days notice of such
21 intended sale.

22 14.8 Any party receiving in kind or separately disposing
23 of all or any part of the unitized substances allocated to any
24 tract, or receiving the proceeds therefrom if the same is sold
25 or purchased by unit operator, shall be responsible for the pay-
26 ment of all royalty on the lease or leases and tracts contributed
27 by it and received into the unit, and each such party shall hold

1 each other party hereto harmless against all claims, demands
2 and causes of action for such royalty on the lease or leases
3 and tracts contributed by it to the unit area.

4 14.9 If, after the effective date of this agreement,
5 there is any tract or tracts that are subsequently committed
6 hereto, as provided in Article IV (Expansion of Unit Area)
7 hereof, or any tract or tracts within the unit area not committed
8 hereto as of the effective date hereof but which are subsequently
9 committed hereto under the provisions of Article XXI (Non-
10 Joinder and Subsequent Joinder) or if any tract is excluded from
11 this unit agreement as provided for in Article XXIX (Loss of
12 Title), the schedule of participation as shown in Exhibit "C",
13 subject to Article XII (Tract Participation), and Article XIII
14 (Tracts Qualified for Participation), shall be revised by the
15 unit operator to show the revised tract participation of all
16 the qualified tracts; and the revised Exhibit "C", upon approval
17 by the Supervisor, shall govern all the allocation of production
18 of unitized substances from and after the effective date thereof
19 until a revised schedule is approved as hereinabove provided.

20 14.10 Working interest owners may use as much of the
21 unitized substances as may reasonably be deemed necessary for
22 the operation and development of the unit area, including but
23 not limited to the injection of unitized substances into the
24 unitized formation provided such operations are in accordance
25 with a plan of operations approved by the Supervisor.

26 14.11 No royalty shall be payable upon or with respect
27 to unitized substances used or consumed in the operation or

1 development of the unit area or which may be otherwise lost
2 or consumed in the production, handling, treating, transporta-
3 tion or storing of unitized substances provided such operations
4 are in accordance with a plan of operations approved by the
5 Supervisor.

6 ARTICLE XV

7 ROYALTY SETTLEMENT

8 15.1 The United States of America and all royalty owners
9 who, under an existing contract, are entitled to take in kind a
10 share of the substances produced from any tract unitized here-
11 under, shall continue to be entitled to such right to take in
12 kind their share of the unitized substances allocated to such
13 tract, and unit operator shall make deliveries of such royalty
14 share taken in kind in conformity with the applicable contracts,
15 laws and regulations. Settlement for royalty interest not taken
16 in kind shall be made by working interest owners responsible
17 therefor under existing contracts, laws and regulations on or
18 before the last day of each month for unitized substances pro-
19 duced during the preceding calendar month; provided, however,
20 that nothing herein contained shall operate to relieve the
21 lessees of any land from their respective lease obligations for
22 the payment of any royalty due under their leases, except that
23 such royalty shall be computed on unitized substances as allo-
24 cated to each tract in accordance with the terms of this unit
25 agreement. With respect to those Federal leases committed
26 hereto on which the royalty rate depends upon the daily average

1 production per well, such average production shall be deter-
2 mined in accordance with the operating regulations as though
3 the committed tracts were included in a single consolidated
4 lease.

5 15.2 If the amount of production or the proceeds thereof
6 accruing to any royalty owner (except the United State of
7 America) in a tract depends upon the average production per
8 well or the average pipeline runs per well from such tract
9 during any period of time, then such production shall be deter-
10 mined from and after the effective date hereof by dividing the
11 quantity of unitized substances allocated hereunder to such
12 tract during such period of time by the number of wells located
13 thereon capable of producing as of the effective date hereof.

14 15.3 If gas obtained from lands not subject to this
15 agreement is introduced into the unitized formation, for use
16 in repressuring, stimulation of production or increasing ulti-
17 mate recovery in conformity with a plan approved pursuant to
18 Article XI (Plan of Operations), a like amount of gas, less
19 appropriate deductions for loss or depletion from any cause, may
20 be withdrawn from the unitized formation, royalty free as to dry
21 gas but not as to the products extracted therefrom; provided
22 such withdrawal shall be pursuant to such conditions and formulas
23 as may be prescribed or approved by the Supervisor; and provided
24 further that such right of withdrawal shall terminate as of the
25 effective date of termination of the unit agreement.

26 15.4 All royalty due the United States of America and
27 the other royalty owners hereunder shall be computed and paid

1 on the basis of all unitized substances allocated to the respec-
2 tive tract or tracts committed hereto, in lieu of actual produc-
3 tion from such tract or tracts.

4 15.5 Each royalty owner (other than the United States
5 of America) that executes this agreement represents and warrants
6 that it is the owner of a royalty interest in a tract or tracts
7 within the unit area as its interest appears in Exhibit "B"
8 attached hereto. If any royalty interest in a tract or tracts
9 should be lost by title failure or otherwise in whole or in
10 part, during the term of this agreement, then the royalty interest
11 of the party representing himself to be the owner thereof shall
12 be reduced proportionately and the interest of all parties shall
13 be adjusted accordingly.

14 ARTICLE XVI

15 RENTAL SETTLEMENT

16 16.1 Rentals or minimum royalties due on leases committed
17 hereto shall be paid by the unit operator or working interest
18 owners responsible therefor under existing contracts, laws and
19 regulations, provided that nothing herein contained shall operate
20 to relieve the lessees of any land from their respective lease
21 obligations for the payment of any rental or minimum royalty in
22 lieu thereof, due under their leases. Rental or minimum royalty
23 for lands of the United States of America subject to this agreement
24 shall be paid at the rate specified in the respective leases from
25 the United States of America, unless rental or minimum royalty is
26 waived, suspended or reduced by law or by approval of the Secre-
27 tary or his duly authorized representative.

1 ARTICLE XVII

2 CONSERVATION

3 17.1 Operations hereunder and production of unitized
4 substances shall be conducted to provide for the most economical
5 and efficient recovery of said substances without waste, as
6 defined by or pursuant to Federal and state laws and regulations.

7 ARTICLE XVIII

8 DRAINAGE

9 18.1 The unit operator shall take appropriate and ade-
10 quate measures to prevent drainage of unitized substances from
11 unitized land by wells on land not subject to this agreement.

12 ARTICLE XIX

13 LEASES AND CONTRACTS CONFORMED AND EXTENDED

14 19.1 The terms, conditions and provisions of all leases,
15 subleases and other contracts relating to exploration, drilling,
16 development or operation for oil or gas on lands committed to
17 this agreement are hereby expressly modified and amended to
18 the extent necessary to make the same conform to the provisions
19 hereof, but otherwise to remain in full force and effect, and
20 the parties hereto hereby consent that the Secretary by approval
21 hereof, or by the approval hereof by his duly authorized repre-
22 sentative, does hereby establish, alter, change or revoke the
23 drilling, producing, rental, minimum royalty and royalty require-
24 ments of federal leases committed hereto and the regulations in
25 respect thereto to conform said requirements to the provisions
26 of this agreement.

27 19.2 Without limiting the generality of the foregoing,

1 all leases, subleases and contracts are particularly modified
2 in accordance with the following:

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

12 (b) Drilling, producing or secondary recovery
13 operations performed hereunder upon any tract of unitized lands
14 shall be accepted and deemed to be performed upon and for the
15 benefit of each and every tract of unitized land, and no lease
16 shall be deemed to expire by reason of failure to drill or pro-
17 duce wells situated on land therein embraced.

18 (c) Suspension of drilling or producing operations
19 on all unitized lands pursuant to direction or consent of the
20 Secretary or his duly authorized representative, shall be deemed
21 to constitute such suspension pursuant to such direction or con-
22 sent as to each and every tract of unitized land.

23 (d) Each lease, sublease, or contract relating to
24 the exploration, drilling, development or operation for oil and
25 gas which by its terms might expire prior to the termination of
26 this agreement, is hereby extended beyond any such term so pro-
27 vided therein, so that it shall be continued in full force and

1 effect for and during the term of this agreement.

2 (e) The segregation of any federal lease committed
3 to this agreement is governed by the following provision in
4 the fourth paragraph of Article 17(j) of the Mineral Leasing
5 Act, as amended by the Act of September 2, 1960 (74 Stat.
6 781-784): "Any (Federal) lease heretofore or hereafter committed
7 to any such (unit) plan embracing lands that are in part within
8 and in part outside of the area covered by any such plan shall
9 be segregated into separate leases as to the lands committed
10 and the lands not committed as of the effective date of unitiza-
11 tion; provided, however, that any such lease as to the non-
12 unitized portion shall continue in force and effect for the term
13 thereof but for not less than two years from the date of such
14 segregation and so long thereafter as oil or gas is produced
15 in paying quantities".

16 19.3 Termination of this agreement shall not affect any
17 lease which, pursuant to the terms thereof or any applicable
18 laws, shall continue in force and effect thereafter.

19 ARTICLE XX

20 COVENANTS RUN WITH LAND

21 20.1 All terms and conditions herein contained shall
22 be construed to be covenants running with the land with respect
23 to the interest of the parties hereto and their successors in
24 title until this agreement terminates, and any grant, transfer,
25 conveyance or any passage of any interest in land or leases sub-
26 ject hereto, no matter how accomplished, shall be and hereby is
27 conditioned upon the assumption of all privileges and obligations

1 by such successor in interest. By way of illustration, but
2 not limitation, if any working interest owner shall, after
3 executing this agreement, create any overriding royalty, pro-
4 duction payment or any similar interest out of its interest,
5 the new owner, or owners, of such interest, or interests,
6 shall be bound by the terms of this agreement and the unit
7 operating agreement. No assignment or transfer of any working
8 interest subject hereto shall be binding upon unit operator
9 until the first day of the calendar month after unit operator
10 is furnished with the original, or acceptable photostatic or
11 certified copy, of the recorded instrument of transfer; and
12 no assignment or transfer of a royalty interest subject hereto
13 shall be binding upon the working interest owner responsible
14 therefor until the first day of the calendar month after said
15 working interest owner is furnished with the original, or accept-
16 able photostatic or certified copy, of the recorded instrument
17 of transfer.

18 ARTICLE XXI

19 EFFECTIVE DATE AND TERM

20 21.1 This agreement shall become binding upon each party
21 who executes or ratifies it as of the date of execution or
22 ratification by such party and shall become effective as of 7:00
23 a.m. of the first day of the calendar month next following:

24 (a) The execution or ratification of this agreement
25 and the unit operating agreement by working interest owners of
26 tracts comprising eighty percent (80%) or more, on a surface
27 acreage basis, of the unit area as shown on the original Exhibit

1 "B" and which are qualified under the provisions of Article
2 XIII; and

3 (b) The filing of this agreement for approval by
4 the Commission and the Supervisor;
5 and provided further that if (a) and (b) above are not accom-
6 plished on or before November 1, 1969, this agreement shall
7 ipso facto expire on said date (hereinafter called "expiration
8 date") and thereafter be of no further force or effect, unless
9 prior thereto this agreement has been executed or ratified by
10 working interest owners owning a combined participation of at
11 least eighty percent (80%), and that working interest owners
12 owning in the aggregate eighty percent (80%) or more of the
13 total participating acreage committed to this agreement have
14 decided to extend said expiration date for a period not to
15 exceed six months (hereinafter called "extended expiration
16 date"). If said expiration date is so extended and (a) and
17 (b) are not accomplished on or before said extended expiration
18 date, this agreement shall ipso facto expire on said extended
19 expiration date and thereafter be of no further force or effect.

20 21.2 Unit operator shall, within thirty (30) days after
21 the effective date of this agreement, file for record in the
22 office where a counterpart of this agreement is recorded, a
23 certificate to the effect that this agreement has become effec-
24 tive according to its terms and stating further the effective
25 date.

26 21.3 The term of this agreement shall be for and during
27 the time that unitized substances are produced in quantities

1 sufficient to pay for the cost of producing the same from
2 wells on the unitized land and so long thereafter as drilling,
3 reworking or other operations (including secondary recovery
4 operations) are prosecuted thereon without cessation of more
5 than ninety (90) consecutive days, and so long thereafter as
6 unitized substances are produced as aforesaid.

7 21.4 This agreement may be terminated at any time for
8 any other reason with the approval of the Supervisor by working
9 interest owners owning seventy-five percent (75%) participation.
10 Notice of any such termination shall be given to all parties
11 hereto and a copy filed by unit operator in the office of the
12 County Clerk of Eddy County, New Mexico.

13 21.5 Upon termination of this agreement and thereafter
14 the parties hereto shall be governed by the terms and provisions
15 of the leases and contracts affecting the separate tracts.

16 21.6 If not otherwise covered by the leases unitized
16 under this agreement, royalty owners hereby grant working interest
17 owners a period of six months after termination of this agreement
18 in which to salvage, sell, distribute or otherwise dispose of
19 the personal property and facilities used in connection with
20 unit operations.

21 ARTICLE XXII

22 RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION

23 22.1 All production and the disposal thereof shall be
24 in conformity with allocations and quotas made or fixed by
25 any duly authorized person or regulatory body under any federal
26 or state statute. The Director is hereby vested with authority
27 to alter or modify from time to time, in his discretion, the

1 rate of prospecting and development and within the limits
2 made or fixed by the Commission to alter or modify the quantity
3 and rate of production under this agreement, such authority
4 being hereby limited to alteration or modification in the public
5 interest, the purpose thereof and the public interest to be
6 served thereby to be stated in the order of alteration or modi-
7 fication.

8 22.2 Powers in this article vested in the Director shall
9 only be exercised after notice to unit operator and opportunity
10 for hearing to be held not less than fifteen days from notice
11 and thereafter subject to administrative appeal before becoming
12 final.

13 ARTICLE XXIII

14 NON-DISCRIMINATION

15 23.1 In connection with the performance of work under
16 this agreement, the unit operator agrees to comply with all of
17 the provisions of Section 202 (1) to (7), inclusive, of Executive
18 Order 11246, (30 F.R. 12319), which are hereby incorporated by
19 reference in this agreement.

20 ARTICLE XXIV

21 APPEARANCES

22 24.1 Unit operator, after notice to other parties
23 affected, shall have the right to appear for or on behalf of
24 any and all interests affected hereby before the Department,
25 and the Commission, and to appeal from any order issued under
26 the rules and regulations of the Department or the Commission,
27 or to apply for relief from any of said rules and regulations

1 or in any proceedings relative to operations before the Depart-
2 ment or the Commission or any other legally constituted autho-
3 rity; provided, however, that any other interested party shall
4 also have the right at his or its own expense to be heard in
5 any such proceeding.

6 ARTICLE XXV

7 NOTICES

8 25.1 All notices, demands, objections or statements
9 required hereunder to be given or rendered to the parties hereto
10 shall be deemed fully given if made in writing and personally
11 delivered to the party or parties or sent by postpaid, certified
12 mail, addressed to such party or parties at their respective
13 addresses set forth in connection with the signatures hereto
14 or to the ratification or consent hereof or to such other address
15 as any such party or parties may have furnished in writing to
16 the party sending the notice, demand or statement.

17 ARTICLE XXVI

18 NO WAIVER OF CERTAIN RIGHTS

19 26.1 Nothing in this agreement contained shall be con-
20 strued as a waiver by any party hereto of the right to assert any
21 legal or constitutional right or defense as to the validity or
22 invalidity of any law of the state wherein said unitized lands
23 are located, or of the United States or the rules or regulations
24 issued thereunder in any way affecting such party, or as a waiver
25 by any such party of any right beyond his or its authority to
26 waive.

27 ARTICLE XXVII

28 PERSONAL PROPERTY EXCEPTED

29 27.1 Each of the working interest owners hereto has

1 heretofore individually placed in or on the wells drilled by
2 such working interest owner on its leases or interests and in
3 or on the land covered by said leases or interests certain
4 casing, casing flanges, tubing, rods, pipes, tanks, as well
5 as other lease and well equipment or other personal property
6 (to all of which the provisions hereof are applicable whether
7 similar or dissimilar in nature to the foregoing enumeration).
8 As to all of such equipment, the installing working interest
9 owner has the contractual right in and under its respective
10 leases to remove same from the premises, and the installation
11 thereof by said working interest owner was with the intention
12 and understanding that all of such equipment would be and remain
13 personal property and that no part thereof would be or become
14 fixtures to the realty. The working interest owners hereto
15 have dealt separately among themselves and do hereby make a
16 separate agreement with each other with respect to such lease
17 and well equipment and all other such personal property located
18 in or on the well or their respective leases, on the one hand,
19 and the realty, leasehold estates and the wells (exclusive of
20 all equipment in or on said wells) located on and the unitized
21 substances underlying the unit area, on the other hand. To
22 that end, the working interest owners have severed, and do
23 hereby sever for all purposes of this agreement, all such lease
24 and well equipment and other such personal property which may
25 be located in or on the respective leases or in or on the wells
26 located on and the unitized substances underlying the unit area.
27 To confirm their respective investments in such equipment,

1 working interest owners have made a separate agreement with
2 each other with respect thereto.

3 ARTICLE XXVIII

4 UNAVOIDABLE DELAY

5 28.1 All obligations under this agreement requiring
6 the unit operator to commence or continue secondary recovery
7 operations or to operate on or produce unitized substances from
8 any of the lands covered by this agreement shall be suspended
9 while, but only so long as the unit operator, despite the exer-
10 cise of due care and diligence, is prevented from complying
11 with such obligations, in whole or in part, by strikes, acts
12 of God, Federal, state or municipal law or agency, unavoidable
13 accident, uncontrollable delays in transportation, inability to
14 obtain necessary materials in open market, or other matters
15 beyond the reasonable control of the unit operator whether
16 similar to matters herein enumerated or not. No unit obligation
17 which is suspended pursuant to this section shall become due
18 less than thirty (30) days after it has been determined that
19 the suspension is no longer applicable. Determination of
20 creditable "unavoidable delay" time shall be made by unit
21 operator subject to the approval of the Supervisor.

22 ARTICLE XXIX

23 LOSS OF TITLE

24 29.1 If any tract of unitized land ceases to have suffi-
25 cient working interest or royalty interest committed to this
26 agreement to meet the conditions of Article XIII because of
27 failure of title of any party hereto, such tract shall be regarded

1 as not committed hereto as of 7:00 a.m. on the first day of
2 the calendar month in which such failure of title is finally
3 determined; provided, however, that no such tract shall be so
4 regarded if same can be requalified under said Article XIII
5 within ninety (90) days after the date on which such title
6 failure was finally determined. If any such tract cannot be
7 so requalified, unit operator shall recompute the tract partici-
8 pation of each tract of unitized land remaining subject to this
9 agreement so that such tract participations shall remain in
10 the same ratio one to another. Thereafter, unit operator shall
11 revise Exhibit "C" conformably with such recomputation. After
12 approval by the Supervisor, each such revised Exhibit "C" shall
13 be effective at 7:00 a.m. on the first day of the calendar month
14 in which such failure of title is finally determined. If title
15 to a working interest fails, the rights and obligations of
16 working interest owners by reason of such failure shall be
17 governed by the unit operating agreement. If title to a royalty
18 interest fails, but the tract to which it relates remains com-
19 mitted to this agreement, the royalty owner whose title failed
20 shall not be entitled to participate hereunder insofar as its
21 participation is based on such lost royalty interest. In the
22 event of a dispute as to the title to any working or royalty
23 interest, payment or delivery on account thereof may be withheld
24 without liability or interest until the dispute is finally
25 settled; provided, that as to Federal land or leases, no pay-
26 ments of funds due the United States of America shall be with-
27 held, but such funds shall be deposited as directed by the

1 Supervisor, to be held as unearned money pending final settle-
2 ment of the title dispute, and then applied as earned or returned
3 in accordance with such final settlement.

4 29.2 Unit operator, as such, is relieved from any respon-
5 sibility for any defect or failure of any title hereunder.

6 ARTICLE XXX

7 BORDER AGREEMENTS

8 30.1 Subject to the approval of the Supervisor, the unit
9 operator with the concurrence of working interest owners owning
10 at least sixty-five percent (65%) of participation, may enter
11 into a border protection agreement or agreements with the working
12 interest owners of lands adjacent to the committed tracts with
13 respect to the operations in the border area for the maximum
14 ultimate recovery, conservation purposes and proper protection
15 of the parties and interests.

16 ARTICLE XXXI

17 NON-JOINDER AND SUBSEQUENT JOINDER

18 31.1 Joinder by any royalty and record owner, at any
19 time, must be accompanied by appropriate joinder of the corres-
20 ponding working interest owner in order for the interest of such
21 royalty and record owner to be regarded as committed. Joinder
22 to the unit agreement by a working interest owner, at any time,
23 must be accomplished by appropriate joinder to the unit operating
24 agreement in order for such interest to be regarded as committed
25 to this unit agreement.

26 31.2 Any oil or gas interest in the unitized formation
27 not committed hereto prior to submission of this agreement for

1 final approval by the Supervisor may thereafter be committed
2 hereto upon compliance with the applicable provisions of this
3 article and of Article XIII (Tracts Qualified for Participation)
4 hereof, at any time up to the effective date hereof on the same
5 basis of participation as provided in said Article XIII, by the
6 owner or owners thereof subscribing, ratifying or consenting in
7 writing to this agreement and, if the interest is a working
8 interest, by the owner of such interest subscribing also to the
9 unit operating agreement.

10 31.3 It is understood and agreed, however, that on and
11 after the effective date hereof the right of subsequent joinder
12 by a working interest owner as provided in this article shall
13 be subject to such requirements or approvals and on such basis
14 as may be agreed upon by working interest owners having not less
15 than eighty percent (80%) participation, and approved by the
16 Supervisor. Such subsequent joinder by a proposed working interest
17 owner must be evidenced by his execution or ratification of this
18 agreement and the unit operating agreement. Subsequent joinder
19 by a proposed royalty owner must be evidenced by his execution,
20 ratification or consent of this agreement and must be consented
21 to in writing by the working interest owner responsible for the
22 payment of any benefits that may accrue hereunder in behalf of
23 such proposed royalty owner. Except as may be otherwise herein
24 provided, subsequent joinder to this agreement shall be effective
25 at 7:00 a.m. as of the first day of the month following the filing
26 with the Supervisor of duly executed counterparts of any and all
27 documents necessary to establish effective commitment of any

1 tract or interest to this agreement, unless objection to such
2 joinder by the Supervisor is duly made within sixty (60) days
3 after such filing.

4 ARTICLE XXXII

5 TAXES

6 32.1 Each party hereto shall, for its own account, render
7 and pay its share of any taxes levied against or measured by the
8 amount or value of the unitized substances produced from the
9 unitized land; provided, however, that if it is required or if
10 it be determined that the unit operator or the several working
11 interest owners must pay or advance said taxes for the account
12 of the parties hereto, it is hereby expressly agreed that the
13 parties so paying or advancing said taxes shall be reimbursed
14 therefor by the parties hereto, including royalty owners, who
15 may be responsible for the taxes on their respective allocated
16 share of said unitized substances. No such taxes shall be
17 charged to the United States or to any lessor who has a contract
18 with a lessee which requires his lessee to pay such taxes.

19 ARTICLE XXXIII

20 NO PARTNERSHIP

21 33.1 The duties, obligations and liabilities of the
22 parties hereto are intended to be several and not joint or
23 collective. This agreement is not intended to create, and shall
24 not be construed to create, an association or trust, or to impose
25 a partnership duty, obligation or liability with regard to any
26 one or more of the parties hereto. Each party hereto shall be
27 individually responsible for its own obligations as herein provided.

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ARTICLE XXXIV

PRODUCTION AS OF THE EFFECTIVE DATE

34.1 Unit operator shall make a proper and timely gauge of all lease and other tanks on unitized land in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 a.m. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall be and remain the property of the working interest owner entitled thereto, the same as if the unit had not been formed; and such working interest owner shall promptly remove said oil from unitized land. Any such oil not so removed may be sold by unit operator for the account of such working interest owner, subject to the payment of all royalty to royalty owners under the applicable lease or leases and other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as unitized substances produced after the effective date hereof.

34.2 If, as of the effective date hereof, any tract is overproduced with respect to the allowable of the wells on that tract and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded as a part of the unitized substances produced after the effective date hereof and shall be charged to such tract as having been delivered to the parties entitled to unitized substances allocated to such tract.

ARTICLE XXXV

COUNTERPARTS

35.1 This agreement may be executed in any number of

1 counterparts, no one of which needs to be executed by all
2 parties and may be ratified or consented to by separate instru-
3 ments in writing specifically referring hereto, and shall be
4 binding upon all those parties who have executed such a counter-
5 part, ratification or consent hereto with the same force and
6 effect as if all parties had signed the same document, and
7 regardless of whether or not it is executed by all other parties
8 owning or claiming an interest in the land within the above de-
9 scribed unit area.

10 IN WITNESS WHEREOF, the parties hereto have caused this
11 agreement to be executed as of the day and year first hereinabove
12 written.

Date: _____

Address: _____

J. J. Travis
UNIT OPERATOR AND WORKING INTEREST OWNER

Travis

Date: _____

Address: _____

Henry Ashforth

Ashforth

Date: _____

Address: _____

David G. Baird

Baird

Date: _____

Address: _____

CHAMBERS & KENNEDY

By _____

By _____

Date: _____

Address:: _____

Dr. Herbert Conway

Conway

Date: _____

Address: _____

ATTEST:

Secretary

Date: _____

Address: _____

Date: _____

Address: _____

Date: _____

Address: _____

Date: _____

Address: _____

Date: _____

Address: _____

ATTEST:

Secretary

Theodore Kapnek

Kapnek

MARK PRODUCTION COMPANY

By _____

President

Joseph Patrick

Patrick

Louis F. Polk

Polk

Louis F. Polk, Jr.

Polk

TEXACO INC.

By _____

President

STATE OF TEXAS)
 : ss
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____
day of _____ 1969 by J. J. Travis and _____ Travis, his wife.

My Commission Expires: _____

Notary Public

The foregoing instrument was acknowledged before me this ____ day of _____ 1969 by Henry Ashforth and _____ Ashforth, his wife.

STATE OF _____)
 : ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by David G. Baird and _____ Baird, his wife.

STATE OF _____)
 : ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____
day of _____ 1969 by _____
_____ on behalf of Chambers & Kennedy

STATE OF _____)
 : ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by Dr. Herbert Conway and _____ Conway, his wife.

STATE OF _____)
 : ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by Theodore Kapnek and _____ Kapnek, his wife.

-44-

STATE OF _____)
: ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by _____ President of Mark Production Company, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____
Notary Public

STATE OF _____)
: ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by Joseph Patrick and _____ Patrick, his wife.

My Commission Expires: _____
Notary Public

STATE OF _____)
: ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by Louis F. Polk and _____ Polk, his wife.

My Commission Expires: _____
Notary Public

STATE OF _____)
: ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by Louis F. Polk, Jr. and _____ Polk, his wife.

My Commission Expires: _____
Notary Public

STATE OF _____)
: ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by _____ President of Texaco Inc., a _____ corporation, on behalf of said corporation.

My Commission Expires: _____
Notary Public

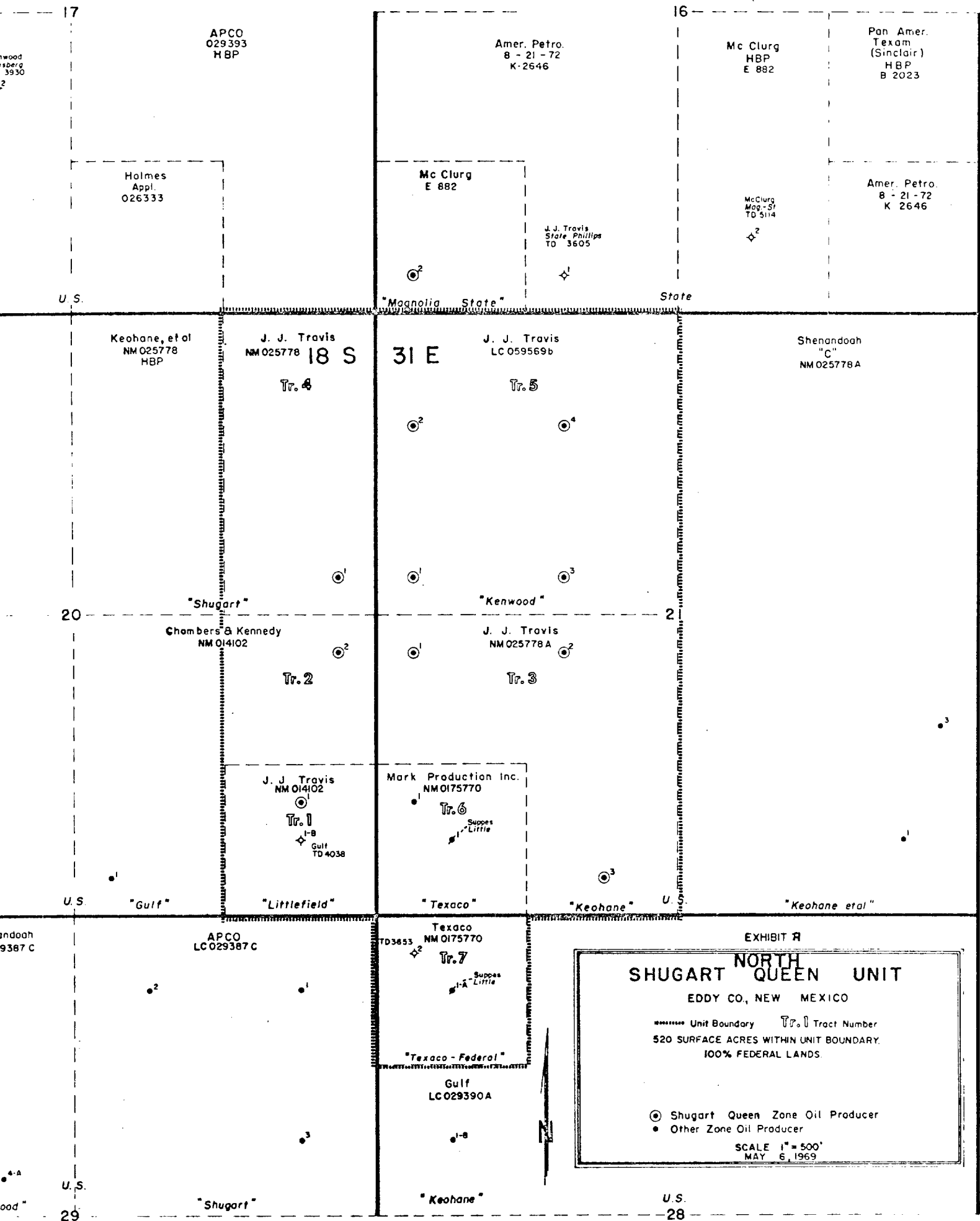


EXHIBIT "B"
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

Tract No.	Description	No. of Acres	Lease and Exp. Date	Basic Royalty and Ownership Percentage		Lessee of Record	Overriding Royalty and Production Payments	Working Interest Owners and Percentage
All in Township 18 South, Range 31 East, N.M.P.M.								
1	NW¼ Sec. 21	160	LC 059569(b)	USA - All (Sch. B)		Apco Oil Corporation - 73% T. R. Parker - 27%	PP \$8,000.00 to Estate of Ralph A. Shugart, payable out of 12½%; after above PP has been paid - 3% ORR to 3 Sons, Inc.	J. J. Travis SW¼NW¼ to 3810 feet NW¼NW¼ to 3359 feet SE¼NW¼ to 3660 feet NE¼NW¼ to 3392 feet
2	NE¼SE¼ Sec. 20	40	NM 014102 HBP	USA - All (Sch. B)		Gulf Oil Corporation	5% Gulf Oil Corporation if production averages 15 bbl. or less - 9.375% if production averages more than 15 bbl. per well per day. Burleson & Huff - 3.125%	C. Fred Chambers and W. D. Kennedy, dba Chambers and Kennedy down to depth of 4,000 feet - 25.7813%; Chambers and Kennedy; a/c Elsa M. Ives - 9.375% David G. Baird - 9.375% Dr. Herbert Conway - 9.375% Theodore Kapnek - 4.6875% Henry Ashforth - 4.6875% Joseph Patrick - 4.6875% Louis F. Polk - 4.6875% Louis F. Polk, Jr. - 2.3437% (Above based upon production being more than 15 bbl. per day)
3	SE¼SE¼ Sec. 20	40	NM 014102 HBP	USA - All (Sch. D)		Gulf Oil Corporation	Lewis B. Burleson and Jack Huff - 3% ORR	J. J. Travis - down to 3750 feet

Tract No.	Description	No. of Acres	Lease and Exp. Date	Basic Royalty and Ownership		Lessee of Record	Overriding Royalty and Production Payments		Working Interest Owners and Percentage
				Percentage					
4	E $\frac{1}{2}$ NE $\frac{1}{4}$ Sec. 20	80	NM 025778 HBP	USA - All (Sch. D)		B. M. Keohane, V. S. Welch, deceased, S. J. Iverson, Jewell D. Iverson, Dorothy C. Iverson, Iverson's Inc., Elyse Saunders Patterson, Sue Saunders Graham, Sally Saunders Toles	PP \$100.00 per acre out of 5% - Mercury Oil Co.		J. J. Travis - down to 4,000 feet
5	N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 21	120	NM 025778-A 12/1/69	USA - All (Sch. D)		Gulf Oil Corporation	Lewis B. Burleson and Jack Huff - 3% ORR		Down to 3900 feet - J. J. Travis - 90.32 Carried int. - Gulf Oil Corporation - 9.68%
6	SW $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 21	40	NM 0175770 HBP	USA - All (Sch. B)		Texaco Inc.	1/8 of 8/8 - Texaco Inc. to depth of 3627 feet Jack Huff and Lewis B. Burleson - 5% ORR		Mark Production Company - down to 3627 feet
7	NW $\frac{1}{4}$ NW $\frac{1}{4}$ Sec. 28	40	NM 0175770 HBP	USA - All (Sch. B)		Texaco Inc.	None		Texaco Inc.

SCHEDULE "C"

SCHEDULE SHOWING PERCENTAGE OF PARTICIPATION OF TRACTS IN UNIT

Tract No.	Description	No. of Acres	Percent Participation of Tract in Unit
<u>All in Township 18 South, Range 31 East</u>			
1	NW $\frac{1}{4}$ Section 21	160	34.047
2	NE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 21	40	6.923
3	SE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 20	40	5.342
4	E $\frac{1}{2}$ NE $\frac{1}{4}$ Section 20	80	6.798
5	N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 21	120	38.240
6	SW $\frac{1}{4}$ SW $\frac{1}{4}$ Section 21	40	7.603
7	NW $\frac{1}{4}$ NW $\frac{1}{4}$ Section 28	40	1.047
			<hr/> 100.000

CLARENCE E. HINKLE
W. E. BONDURANT, JR.
LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.

LAW OFFICES
HINKLE, BONDURANT, COX & EATON
600 HINKLE BUILDING
POST OFFICE BOX 10
ROSWELL, NEW MEXICO 88201

July 6, 1970

TELEPHONE (505) 622-6510

MIDLAND, TEXAS OFFICE
521 MIDLAND TOWER
(915) MU 3-4691

970 JUL 8 PM 1 21

Oil Conservation Commission
Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

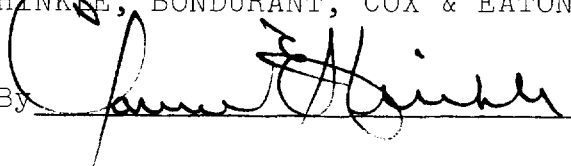
There is enclosed herewith a copy of the Unit Agreement for the Development and Operationg of the North Shugart Queen Unit Area, Eddy County. This covers all federal land and you will note from the certificate attached that it was approved by the United States Geological Survey on June 30 and became effective as of July 1.

This agreement was approved by the Commission in Order R-3870 entered in Case No. 4247 on November 10, 1969 and this copy is filed in conformity with said Order.

Yours very truly,

HINKLE, BONDURANT, COX & EATON

By



CEH:cs
Enc.

CERTIFICATION - DETERMINATION

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

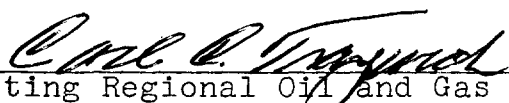
A. Approve the attached agreement for the development and operation of the North Shugart Queen Unit Area, State of New Mexico.

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

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

DATED June 30, 1970.

'70 JUL 8 PM 1 21



Acting Regional Oil and Gas Supervisor
United States Geological Survey

Contract Number 14-08-0001-11582.

RECEIVED
JUN 22 1970
U. S. GEOLOGICAL SURVEY
ROSWELL, NEW MEXICO

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
NORTH SHUGART QUEEN UNIT AREA
EDDY COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
NORTH SHUGART QUEEN UNIT AREA
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT entered into as of the 11th day of
November, 1969, by and between the parties subscribing,
ratifying or consenting hereto, and herein referred to as
"parties hereto";

WITNESSETH:

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

WHEREAS, the Mineral Leasing Act of February 25, 1920,
(41 Stat. 437, as amended, 30 U.S.C. Sections 181 et seq.)
authorizes Federal lessees and their representatives to unite
with each other or jointly or separately with others in collec-
tively adopting and operating a 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 Oil Conservation Commission of the State
of New Mexico is authorized by law (Art. 3, Ch. 65, Vol. 9,
Part 2, 1953 Stat. Anno.) to approve this agreement, and the
conservation provisions hereof; and

1 WHEREAS, the parties hereto hold sufficient interests
2 in the North Shugart Queen Unit Area covering the land herein-
3 after described to give reasonably effective control of opera-
4 tions therein; and

5 WHEREAS, it is the purpose of the parties hereto, to
6 enable institution and consummation of secondary recovery
7 operations, to conserve natural resources, to prevent waste
8 and secure the other benefits obtainable through development
9 and operation of the area subject to this agreement under the
10 terms, conditions and limitations herein set forth;

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

16 ARTICLE I

17 ENABLING ACT AND REGULATIONS

18 1.1 The Mineral Leasing Act of February 25, 1920, as
19 amended, supra, and all valid, pertinent regulations, including
20 operating and unit plan regulations, heretofore issued there-
21 under and valid, pertinent and reasonable regulations hereafter
22 issued thereunder are accepted and made a part of this agree-
23 ment as to Federal lands, provided such regulations are not
24 inconsistent with the terms of this agreement; and as to non-
25 Federal lands, the oil and gas operating regulations in effect
26 as of the effective date hereof governing drilling and producing
27 operations, not inconsistent with the terms hereof or the laws

1 of the state in which the non-Federal land is located, are
2 hereby accepted and made a part of this agreement.

3 ARTICLE II

4 DEFINITIONS

5 2.1 For the purpose of this agreement, the following
6 terms and expressions as used herein shall mean:

7 (a) "Commission" is defined as the Oil Conserva-
8 tion Commission of the State of New Mexico;

9 (b) "Director" is defined as the Director of the
10 United States Geological Survey;

11 (c) "Secretary" is defined as the Secretary of the
12 Interior of the United States of America;

13 (d) "Department" is defined as the Department of
14 the Interior of the United States of America;

15 (e) "Supervisor" is defined as the Oil and Gas
16 Supervisor of the United States Geological Survey for the
17 region in which the unit area is situated;

18 (f) "Unitized formation" shall mean that subsurface
19 portion of the unit area from the top of the Queen formation to
20 a depth of 200 feet below the top of the Queen formation. The top
21 of the Queen formation is more particularly identified as that
22 point at an indicated depth of 3200 feet in the following well
23 log:

24 J. J. Travis - Keohane Federal No. 1 located
25 2310 feet from the South line and 330 feet from
26 the West line of Section 21, Township 18 South,
27 Range 31 East.

1 (g) "Unitized substances" means all oil, gas,
2 gaseous substances, sulphur contained in gas, condensate,
3 distillate and all associated and constituent liquid or lique-
4 fiable hydrocarbons within or produced from the unitized formation;

5 (h) "Tract" means each parcel of land shown as such
6 and given a tract number in Exhibit "A" and as described in
7 Exhibit "B";

8 (i) "Tract participation" is defined as the percen-
9 tage of participation as shown on Exhibit "C" for allocating
10 unitized substances to a tract under this agreement;

11 (j) "Unit participation" as used herein shall mean
12 the sum of the tract participations as shown on Exhibit "C" for
13 each working interest owner;

14 (k) "Working interest" is defined as the right to
15 search for, produce and acquire unitized substances whether held
16 as an incident of ownership of mineral fee simple title, under
17 an oil and gas lease, or otherwise held;

18 (l) "Working interest owner" is defined as and
19 shall mean any party hereto owning a working interest, including
20 a carried working interest owner, by virtue of a lease, operating
21 agreement, or otherwise, which interest is chargeable with and
22 obligated to pay or bear, either in cash or out of production,
23 or otherwise, all or a portion of the cost of drilling, developing
24 and producing the unitized substances from the unitized formation
25 and operation thereof hereunder;

26 (m) "Royalty interest" or "royalty" is defined as an
27 interest other than a working interest in or right to receive

1 a portion of the unitized substances or the proceeds thereof
2 and includes the royalty interest reserved by the lessor by
3 an oil and gas lease and any overriding royalty interest, oil
4 payment interest, net profit contracts, or any other payment
5 or burden which does not carry with it the right to search for
6 and produce unitized substances;

7 (n) "Royalty owner" is defined as and shall mean
8 the owner of a royalty interest;

9 (o) "Unit operating agreement" is defined as and
10 shall mean any agreement or agreements (whether one or more)
11 entered into (separately or collectively) by and between the
12 unit operator and the working interest owners as provided in
13 Article IX infra, and shall be styled "Unit Operating Agreement,
14 North Shugart Queen Unit, Eddy County, New Mexico";

15 (p) "Unit manager" is defined as the person or cor-
16 poration appointed by the unit working interest owners upon resig-
17 nation or removal of the unit operator to perform the duties of
18 the unit operator until the selection and qualification of a
19 successor unit operator as provided for in Article VIII hereof.

20 (q) "Record owner" is defined as the holder of the
21 record title to a lease covering Federal lands according to the
22 applicable records of the Department of the Interior of the
23 United States of America.

24 ARTICLE III

25 UNIT AREA AND EXHIBITS

26 3.1 The following described land is hereby designated
27 as constituting the unit area, all of said land being situated
28 in Eddy County, New Mexico, to-wit:

Township 18 South, Range 31 East, N.M.P.M.

Section 20 - $E\frac{1}{2}E\frac{1}{2}$

Section 21 - $W\frac{1}{2}$

Section 28 - $NW\frac{1}{4}NW\frac{1}{4}$

containing 520 acres, more or less

3.2 Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said unit 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 comprising each tract, kind of percentage of ownership of oil and gas interests in each tract. Exhibit "C" is a schedule showing the percentage of participation of each tract on the basis of the commitment of all tracts to this agreement. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibit "A", "B" and "C" shall be revised by the unit operator whenever changes in the unit area render such revision necessary, or when requested by the Supervisor and the required number of copies of such revision shall be filed with the Supervisor.

3.3 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 and the Supervisor, may correct the mistake by revising the exhibits to conform to the facts. The revision

1 shall not include any re-evaluation of engineering or geological
2 interpretations used in determining tract participation. Each such
3 revision of an exhibit shall be effective at 7:00 a.m. on the first
4 day of the calendar month next following the filing for record of
5 the revised exhibit or on such other appropriate date as may be
6 determined by working interest owners and set forth in the revised
7 exhibit, and approved by the Supervisor.

8 ARTICLE IV

9 EXPANSION OF UNIT AREA

10 4.1 The above described unit area may, when practicable,
11 be expanded to include therein any additional tract or tracts
12 regarded as reasonably necessary or advisable for the purposes
13 of this agreement to conform with the purposes of this agreement.
14 Such expansion shall be effected in the following manner:

15 (a) The working interest owner or owners of a tract
16 or tracts desiring to bring such tract or tracts into this unit
17 shall file an application therefor with unit operator requesting
18 such admission.

19 (b) Unit operator shall circulate a notice of the
20 proposed expansion to each working interest owner in the unit
21 and in the tract proposed to be included in the unit, setting
22 out the basis for admission, the unit participation to be
23 assigned to each tract in the enlarged unit and other pertinent
24 data. After negotiation (at working interest owners' meeting
25 or otherwise) if working interest owners having in the aggregate
26 eighty percent (80%) participation have agreed to such tract or
27 tracts being brought into the unit, then unit operator shall,

1 after preliminary concurrence by the Director:

2 (1) Prepare a notice of proposed expansion de-
3 scribing the contemplated changes in the boundaries of the unit
4 area, the reason therefor, the basis for admission of the addi-
5 tional tract or tracts, the unit participation to be assigned
6 thereto and the proposed effective date thereof; and

7 (2) Deliver copies of said notice to the Supervisor,
8 each working interest owner and to the lessee and lessor whose
9 interests are affected, advising such parties that thirty (30)
10 days will be allowed for submission to the unit operator of any
11 objection to such proposed expansion; and

12 (3) File, upon the expiration of said thirty (30)
13 day period as set out in (2) immediately above, with the Com-
14 mission and Supervisor the following: (a) evidence of mailing
15 or delivering copies of said notice of expansion; (b) an appli-
16 cation for such expansion; (c) an instrument containing the
17 appropriate joinders in compliance with the participation
18 requirements of Article XIII (Tracts Qualified for Unit Partici-
19 pation); and (d) copy of any objections received.

20 (4) There shall be no retroactive allocation or
21 adjustment of unit expense or of interests in the unitized
22 substances produced, or proceeds thereof, prior to the effective
23 date of expansion and qualification under Article XIII; however,
24 this limitation shall not prevent an adjustment of investment
25 by reason of the enlargement.

26 4.2 The expansion shall, after due consideration of all
27 pertinent information and approval by the Commission and the

1 Supervisor, become effective as of the date prescribed in the
2 notice thereof, preferably the first day of a month subsequent
3 to the date of notice.

4 4.3 In any approved expansion of the unit area the revised
5 tract participations of those tracts which were committed prior to
6 each such expansion shall remain in the same ratio one to another.

7 ARTICLE V

8 UNITIZED LAND AND UNITIZED SUBSTANCES

9 5.1 All land committed to this agreement as to the unitized
10 formation shall constitute land referred to herein as "unitized
11 land" or "land subject to this agreement". All oil, gas, gaseous
12 substances, sulphur contained in gas, condensate, distillate and
13 all associated and constituent liquid or liquefiable hydrocarbons
14 within or produced from the lands committed to this agreement as
15 to the unitized formation are unitized under the terms of this
16 agreement and herein are called "unitized substances". Nothing
17 herein shall be construed to unitize, pool or in any way affect
18 the oil, gas and other minerals contained in or that may be pro-
19 duced from any formation other than the unitized formation as
20 above described.

21 ARTICLE VI

22 UNIT OPERATOR

23 6.1 J. J. Travis of Midland, Texas is hereby designated
24 the unit operator, and by signing this instrument as unit operator
25 he agrees and consents to accept the duties and obligations of
26 unit operator for the operation, development and production of
27 unitized substances as herein provided. Whenever reference is

1 made herein to the unit operator, such reference means the
2 unit operator acting in that capacity and not as an owner of
3 interests in unitized substances, and the term "working interest
4 owner" when used herein shall include or refer to the unit
5 operator as the owner of a working interest when such interest
6 is owned by him.

7 ARTICLE VII

8 RESIGNATION OR REMOVAL OF UNIT OPERATOR

9 7.1 Unit operator shall have the right to resign at any
10 time, but such resignation shall not become effective so as to
11 release unit operator from the duties and obligations of unit
12 operator and terminate unit operator's rights as such for a
13 period of six (6) months after written notice of intention to
14 resign has been given by unit operator to all working interest
15 owners and the Supervisor, and until all unit wells are placed in
16 a condition satisfactory to the Supervisor for suspension, abandon-
17 ment or operation, whichever is intended by the unit manager,
18 unless a new unit operator shall have taken over and assumed the
19 duties and obligations of unit operator prior to the expiration
20 of said period.

21 7.2 The resignation of unit operator shall not release
22 unit operator from any liability for any default by him hereunder
23 occurring prior to the effective date of his resignation.

24 7.3 The unit operator shall, upon default or failure in
25 the performance of his duties or obligations hereunder, be subject
26 to removal by vote of working interest owners having in the aggregate
27 seventy-five percent (75%) or more participation, after

1 excluding any unit participation of the unit operator. Such
2 removal shall be effective upon notice thereof to the Supervisor.

3 7.4 In all such instances of effective resignation or
4 removal, until a successor to unit operator is selected and
5 approved as hereinafter provided, the working interest owners
6 shall be jointly responsible for the performance of the duties
7 of the unit operator and shall not later than thirty (30) days
8 before such resignation or removal becomes effective, appoint
9 a unit manager to represent them in any action to be taken here-
10 under.

11 7.5 The resignation or removal of unit operator under
12 this agreement shall not terminate its right, title or interest
13 as the owner of a working interest or other interest in unitized
14 substances, but upon the resignation or removal of unit operator
15 becoming effective, such unit operator shall deliver possession
16 of all wells, equipment, books and records, materials, appur-
17 tenances and any other assets, used in connection with the unit
18 operations and owned by the working interest owners to the new
19 duly qualified successor unit operator or to the unit manager if
20 no such new unit operator is elected, to be used for the purpose
21 of conducting unit operations hereunder. Nothing herein shall be
22 construed as authorizing the removal of any material, equipment
23 or appurtenances needed for the preservation of any wells.
24 Nothing herein contained shall be construed to relieve or dis-
25 charge any unit operator who resigns or is removed hereunder
26 from any liability or duties accruing or performable by it prior
27 to the effective date of such resignation or removal.

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ARTICLE IX

ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

9.1 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 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 agreement, and in case of any inconsistency or conflict between this agreement and the unit operating agreement, this unit agreement shall prevail. Copies of any unit operating agreement executed pursuant to this article shall be filed with the Supervisor as required prior to approval of this agreement.

ARTICLE X

RIGHTS AND OBLIGATIONS OF UNIT OPERATOR

10.1 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

1 distributing the unitized substances are hereby delegated to
2 and shall be exercised by the unit operator as herein provided.
3 Upon request by unit operator, acceptable evidence of title to
4 said rights shall be deposited with said unit operator, and
5 together with this agreement, shall constitute and define the
6 rights, privileges and obligations of unit operator. Nothing
7 herein, however, shall be construed to transfer title to any
8 land or to any lease or operating agreement, it being understood
9 that under this agreement the unit operator, in its capacity
10 as unit operator, shall exercise the rights of possession and
11 use vested in the parties hereto only for the purposes herein
12 specified.

13 ARTICLE XI

14 PLAN OF OPERATIONS

15 11.1 It is recognized and agreed by the parties hereto
16 that all of the land subject to this agreement is reasonably
17 proved to be productive of unitized substances in paying quanti-
18 ties and that the object and purpose of this agreement is to
19 formulate and to put into effect a secondary recovery project
20 in order to effect additional recovery of unitized substances,
21 prevent waste and conserve natural resources consistent with
22 good engineering practices expected of a prudent operator. The
23 parties hereto agree that the unit operator may, subject to the
24 consent and approval of a plan of operation by the working
25 interest owners, the Supervisor and the Commission, inject into
26 the unitized formation through any well or wells completed
27 therein, brine, water, air, gas, oil, liquefied petroleum gases

1 and any one or more other substances or combination of substances
2 whether produced from the unitized formation or not, and that the
3 location of input wells and the rate of injection therein and the
4 rate of production shall be governed by standards of good geologic
5 and petroleum engineering practices and conservation methods.
6 Subject to like approval, the plan of operations may be revised
7 as conditions may warrant.

8 11.2 The initial plan of operations shall be filed with
9 the Supervisor and the Commission concurrently with the filing
10 of this unit agreement for final approval. Said initial plan
11 of operation and all revisions thereof shall be as complete and
12 adequate as the Supervisor and the Commission may determine to
13 be necessary for timely operation consistent herewith. Reason-
14 able diligence shall be exercised in complying with the obliga-
15 tions of the approved plan of operation. Thereafter, from time
16 to time before the expiration of any existing plan, the unit
17 operator shall submit for like approval a plan for an additional
18 specified period of operation.

19 Notwithstanding anything to the contrary herein contained,
20 if unit operator fails to commence unit operations for the second-
21 ary recovery of unitized substances from the unit area within six
22 (6) months after the effective date of this agreement or any exten-
23 sion thereof approved by the Supervisor, this agreement shall ter-
24minate automatically upon the expiration of said six (6) month
25 period.

26 11.3 The parties hereto subject to prior rights, if any,
27 grant to the unit operator the use of brine or water or both

1 from any formation in and under the unit area for injection
2 into the unitized formation and the right to use as much of the
3 surface of the land within the unit area as may reasonably be
4 necessary for unit operations insofar as these rights are granted
5 by the oil and gas leases.

6 ARTICLE XII

7 TRACT PARTICIPATION

8 12.1 In Exhibit "C" attached hereto there are listed and
9 numbered the various tracts within the unit area, and set forth
10 opposite each tract are figures which represent the percentage
11 of participation allocated to each tract in the unit area. The
12 tract participation was determined by the following formula:

13
$$\frac{\text{Tract net pore volume}}{\text{unit net pore volume}} \times 100\%$$

14 The following definitions are applicable to the above
15 formula:

16 "Net sand volume" is defined as the number of acre feet
17 in the Gray sand member of the Queen formation underlying a tract
18 which has an average porosity of 9.5 percent or greater, an
19 average permeability of 0.3 millidarcys or greater, and an oil
20 saturation of 11 percent or greater.

21 "Tract net pore volume" is defined as the net sand volume
22 underlying a tract multiplied by the average porosity.

23 "Unit net pore volume" is defined as the sum of the net
24 pore volume for all tracts qualified for participation under
25 this agreement.

26 ARTICLE XIII

27 TRACTS QUALIFIED FOR PARTICIPATION

28 13.1 As the objective of this agreement is to have lands

1 in the unit area operated and entitled to participation under
2 the terms hereof, it is agreed that, notwithstanding anything
3 else herein, no joinder shall be considered a commitment to this
4 agreement unless the tract involved is qualified under this
5 article. On and after the effective date hereof, the tracts
6 within the unit area which shall be entitled to participation
7 (as provided in Article XII hereof) in the production of unitized
8 substances therefrom shall be those tracts within the unit area
9 as shown on Exhibit "A" and described in said Exhibit "B" that
10 corner or have a common boundary and which are otherwise quali-
11 fied as follows:

12 (a) Each tract as to which working interest owners
13 owning one hundred percent (100%) of the working interest and
14 as to which record owners owning one hundred percent (100%),
15 each have become parties to this agreement and as to which royalty
16 owners owning seventy-five percent (75%) or more of the royalty
17 interest have become parties to this agreement.

18 (b) Each tract as to which working interest owners
19 owning one hundred percent (100%) of the working interest and as
20 to which record owners owning one hundred percent (100%), each
21 have become parties to this agreement, and as to which royalty
22 owners owning less than seventy-five percent (75%) of the royalty
23 interest have become parties to this agreement, and as to which
24 (1) all working interest owners and all record owners in such
25 tract have joined in a request for the commitment of such tract
26 to the unit agreement, and as to which (2) eighty percent (80%)
27 of the combined voting interests of working interest owners in

1 all tracts that meet the requirements of Article 13.1(a) above
2 have voted in favor of the commitment of such tract. For the
3 purpose of this Article 13.1(b), the voting interest of a working
4 interest owner shall be equal to the ratio that its participation
5 attributable to tracts which qualify under Article 13.1(a) bears
6 to the total participation of all working interest owners attri-
7 butable to all tracts which qualify under Article 13.1(a).

8 (c) Each tract as to which working interest owners
9 owning less than one hundred percent (100%) of the working
10 interest and as to which record owners owning one hundred percent
11 (100%) each have become parties to this agreement, regardless of
12 the percentage of royalty interest therein that is committed
13 hereto; and as to which (1) the working interest owner who operates
14 the tract and all of the other working interest owners in such
15 tract who have become parties to this agreement have joined in a
16 request for qualification of such tract for participation under
17 this unit agreement, and have executed and delivered an indemnity
18 agreement indemnifying and agreeing to hold harmless the other
19 owners of working interests committed to the unit agreement,
20 their successor and assigns, against all claims and demands that
21 may be made by the owners of working interests in such tract who
22 are not parties to this agreement, and which arise out of the
23 qualification of the tract to this unit agreement; and as to
24 which (2) eighty percent (80%) of the combined voting interest
25 of working interest owners in all tracts that meet the require-
26 ments of either Article 13.1(a) or 13.1(b) have voted in favor
27 of the qualification of such tract and to accept the indemnity

1 agreement. For the purpose of this Article 13.1(c), the voting
2 interest of each working interest owner shall be equal to the
3 ratio that its participation attributable to tracts that qualify
4 under either Article 13.1(a) or 13.1(b) bears to the total
5 participation of all working interest owners attributable to all
6 tracts which qualify under either Article 13.1(a) or 13.1(b).
7 Upon the qualification of such a tract under this unit agreement,
8 the tract participations which would have been attributed to the
9 non-subscribing owners of the working interest in such tract,
10 had they become parties to this agreement and the unit operating
11 agreement, shall be attributed to the working interest owners in
12 such tract who have become parties to such agreements, in pro-
13 portion to their respective working interests in the tract.

14 13.2 If on the effective date of this agreement there
15 is any tract or tracts which have not been effectively committed
16 to this agreement or qualified as above provided, then such tract
17 or tracts shall not be entitled to participate hereunder. Unit
18 operator shall, when submitting this agreement for final approval
19 by the Supervisor, file therewith, or as soon as practicable, a
20 schedule of those tracts which have been qualified for participa-
21 tion under this agreement and are entitled to participate in the
22 production of unitized substances. Said schedule (Exhibit "C")
23 shall set forth opposite each such committed tract the lease number
24 or assignment number, the owner of record of the lease and the
25 percentage participation of such tract which shall be computed
26 according to the participation formula set out in Article XII
27 (Tract Participation) above. Upon approval of this Exhibit "C"

1 by the Supervisor, it shall become a part of this agreement and
2 shall govern the allocation of production of unitized substances
3 until the effective date of a new Exhibit "C" approved by the
4 Supervisor.

5 ARTICLE XIV

6 ALLOCATION OF UNITIZED SUBSTANCES

7 14.1 All unitized substances produced and saved (less,
8 save and except any part of such unitized substances used in
9 conformity with good operating practices on unitized land for
10 drilling, operating, camp and other production or development
11 purposes and for pressure maintenance or unavoidable loss)
12 shall be apportioned among and allocated to the qualified tracts
13 within the unit area in accordance with the respective tract
14 participation effective hereunder during the respective periods
15 such unitized substances were produced, as set forth in Exhibit
16 "C". The amount of unitized substances so allocated to each
17 tract (regardless of whether it be more or less than the amount
18 of actual production of unitized substances from the well or
19 wells, if any, on such tract), shall, for all intents, uses and
20 purposes, be deemed to have been produced from such tract.

21 14.2 The unitized substances allocated to each tract
22 shall be distributed among, or accounted for, to the parties
23 executing, consenting to or ratifying this agreement entitled
24 to share in the production from such tract in the same manner,
25 in the same proportion, and upon the same conditions, as they
26 would have participated and shared in the production from such
27 tracts, or in the proceeds thereof, had this agreement not been

1 entered into and with the same legal force and effect.

2 14.3 No tract committed to this agreement and/or quali-
3 fied for participation as above provided shall be subsequently
4 excluded from participation hereunder on account of depletion of
5 unitized substances, and nothing herein contained shall be con-
6 strued as requiring any retroactive adjustment for production
7 obtained prior to the effective date of the joinder of any tract.

8 14.4 If the working interest and the royalty interest
9 in any tract are divided with respect to separate parcels or
10 portions of such tract and owned severally by different persons,
11 the percentage participation assigned to such tract shall, in
12 the absence of a recordable instrument executed by all owners
13 and furnished to unit operator fixing the division of ownership,
14 be divided among such parcels or portions in proportion to the
15 number of surface acres in each.

16 14.5 Subject to Article XV hereof, the unitized substances
17 allocated to each tract shall be delivered in kind to the respec-
18 tive working interest owners and parties entitled thereto by
19 virtue of the ownership of oil and gas rights therein or by pur-
20 chase from such owners. Each working interest owner and the
21 parties entitled thereto shall have the continuing right to re-
22 ceive such production in kind at a common point within the unit
23 area and to sell or dispose of the same as it sees fit. Each
24 such party shall have the right to construct, maintain and operate
25 all necessary facilities for that purpose on unitized land, pro-
26 vided the same are so constructed, maintained and operated as
27 not to interfere with operations carried on pursuant hereto.

1 Any extra expenditure incurred by unit operator by reason of
2 the delivery in kind of any portion of the unitized substances
3 shall be borne by the parties responsible therefore. If a
4 royalty owner has the right to take in kind a share of unitized
5 substances and fails to do so, the working interest owner whose
6 working interest is subject to such royalty interest shall be
7 entitled to take in kind such share of the unitized substances.

8 14.6 If any party fails to take in kind or separately
9 dispose of its share of unitized substances, unit operator shall
10 have the right for the time being and subject to revocation at
11 will by the party owning the share, to sell or otherwise dispose
12 of such production to itself or to others on a day to day basis
13 at not less than the prevailing market price in the area for
14 like production. The proceeds of the unitized substances so
15 disposed of by unit operator shall be paid to the party entitled
16 thereto.

17 14.7 Notwithstanding the foregoing, the unit operator
18 shall not make a sale into interstate commerce of any working
19 interest owner's share of gas production without first giving
20 such working interest owner sixty (60) days notice of such
21 intended sale.

22 14.8 Any party receiving in kind or separately disposing
23 of all or any part of the unitized substances allocated to any
24 tract, or receiving the proceeds therefrom if the same is sold
25 or purchased by unit operator, shall be responsible for the pay-
26 ment of all royalty on the lease or leases and tracts contributed
27 by it and received into the unit, and each such party shall hold

1 each other party hereto harmless against all claims, demands
2 and causes of action for such royalty on the lease or leases
3 and tracts contributed by it to the unit area.

4 14.9 If, after the effective date of this agreement,
5 there is any tract or tracts that are subsequently committed
6 hereto, as provided in Article IV (Expansion of Unit Area)
7 hereof, or any tract or tracts within the unit area not committed
8 hereto as of the effective date hereof but which are subsequently
9 committed hereto under the provisions of Article XXI (Non-
10 Joinder and Subsequent Joinder) or if any tract is excluded from
11 this unit agreement as provided for in Article XXIX (Loss of
12 Title), the schedule of participation as shown in Exhibit "C",
13 subject to Article XII (Tract Participation), and Article XIII
14 (Tracts Qualified for Participation), shall be revised by the
15 unit operator to show the revised tract participation of all
16 the qualified tracts; and the revised Exhibit "C", upon approval
17 by the Supervisor, shall govern all the allocation of production
18 of unitized substances from and after the effective date thereof
19 until a revised schedule is approved as hereinabove provided.

20 14.10 Working interest owners may use as much of the
21 unitized substances as may reasonably be deemed necessary for
22 the operation and development of the unit area, including but
23 not limited to the injection of unitized substances into the
24 unitized formation provided such operations are in accordance
25 with a plan of operations approved by the Supervisor.

26 14.11 No royalty shall be payable upon or with respect
27 to unitized substances used or consumed in the operation or

1 development of the unit area or which may be otherwise lost
2 or consumed in the production, handling, treating, transporta-
3 tion or storing of unitized substances provided such operations
4 are in accordance with a plan of operations approved by the
5 Supervisor.

6 ARTICLE XV

7 ROYALTY SETTLEMENT

8 15.1 The United States of America and all royalty owners
9 who, under an existing contract, are entitled to take in kind a
10 share of the substances produced from any tract unitized here-
11 under, shall continue to be entitled to such right to take in
12 kind their share of the unitized substances allocated to such
13 tract, and unit operator shall make deliveries of such royalty
14 share taken in kind in conformity with the applicable contracts,
15 laws and regulations. Settlement for royalty interest not taken
16 in kind shall be made by working interest owners responsible
17 therefor under existing contracts, laws and regulations on or
18 before the last day of each month for unitized substances pro-
19 duced during the preceding calendar month; provided, however,
20 that nothing herein contained shall operate to relieve the
21 lessees of any land from their respective lease obligations for
22 the payment of any royalty due under their leases, except that
23 such royalty shall be computed on unitized substances as allo-
24 cated to each tract in accordance with the terms of this unit
25 agreement. With respect to those Federal leases committed
26 hereto on which the royalty rate depends upon the daily average

1 production per well, such average production shall be deter-
2 mined in accordance with the operating regulations as though
3 the committed tracts were included in a single consolidated
4 lease.

5 15.2 If the amount of production or the proceeds thereof
6 accruing to any royalty owner (except the United States of
7 America) in a tract depends upon the average production per
8 well or the average pipeline runs per well from such tract
9 during any period of time, then such production shall be deter-
10 mined from and after the effective date hereof by dividing the
11 quantity of unitized substances allocated hereunder to such
12 tract during such period of time by the number of wells located
13 thereon capable of producing as of the effective date hereof.

14 15.3 If gas obtained from lands not subject to this
15 agreement is introduced into the unitized formation, for use
16 in repressuring, stimulation of production or increasing ulti-
17 mate recovery in conformity with a plan approved pursuant to
18 Article XI (Plan of Operations), a like amount of gas, less
19 appropriate deductions for loss or depletion from any cause, may
20 be withdrawn from the unitized formation, royalty free as to dry
21 gas but not as to the products extracted therefrom; provided
22 such withdrawal shall be pursuant to such conditions and formulas
23 as may be prescribed or approved by the Supervisor; and provided
24 further that such right of withdrawal shall terminate as of the
25 effective date of termination of the unit agreement.

26 15.4 All royalty due the United States of America and
27 the other royalty owners hereunder shall be computed and paid

1 on the basis of all unitized substances allocated to the respec-
2 tive tract or tracts committed hereto, in lieu of actual produc-
3 tion from such tract or tracts.

4 15.5 Each royalty owner (other than the United States
5 of America) that executes this agreement represents and warrants
6 that it is the owner of a royalty interest in a tract or tracts
7 within the unit area as its interest appears in Exhibit "B"
8 attached hereto. If any royalty interest in a tract or tracts
9 should be lost by title failure or otherwise in whole or in
10 part, during the term of this agreement, then the royalty interest
11 of the party representing himself to be the owner thereof shall
12 be reduced proportionately and the interest of all parties shall
13 be adjusted accordingly.

14 ARTICLE XVI

15 RENTAL SETTLEMENT

16 16.1 Rentals or minimum royalties due on leases committed
17 hereto shall be paid by the unit operator or working interest
18 owners responsible therefor under existing contracts, laws and
19 regulations, provided that nothing herein contained shall operate
20 to relieve the lessees of any land from their respective lease
21 obligations for the payment of any rental or minimum royalty in
22 lieu thereof, due under their leases. Rental or minimum royalty
23 for lands of the United States of America subject to this agreement
24 shall be paid at the rate specified in the respective leases from
25 the United States of America, unless rental or minimum royalty is
26 waived, suspended or reduced by law or by approval of the Secre-
27 tary or his duly authorized representative.

1 ARTICLE XVII

2 CONSERVATION

3 17.1 Operations hereunder and production of unitized
4 substances shall be conducted to provide for the most economical
5 and efficient recovery of said substances without waste, as
6 defined by or pursuant to Federal and state laws and regulations.

7 ARTICLE XVIII

8 DRAINAGE

9 18.1 The unit operator shall take appropriate and ade-
10 quate measures to prevent drainage of unitized substances from
11 unitized land by wells on land not subject to this agreement.

12 ARTICLE XIX

13 LEASES AND CONTRACTS CONFORMED AND EXTENDED

14 19.1 The terms, conditions and provisions of all leases,
15 subleases and other contracts relating to exploration, drilling,
16 development or operation for oil or gas on lands committed to
17 this agreement are hereby expressly modified and amended to
18 the extent necessary to make the same conform to the provisions
19 hereof, but otherwise to remain in full force and effect, and
20 the parties hereto hereby consent that the Secretary by approval
21 hereof, or by the approval hereof by his duly authorized repre-
22 sentative, does hereby establish, alter, change or revoke the
23 drilling, producing, rental, minimum royalty and royalty require-
24 ments of federal leases committed hereto and the regulations in
25 respect thereto to conform said requirements to the provisions
26 of this agreement.

27 19.2 Without limiting the generality of the foregoing,

1 all leases, subleases and contracts are particularly modified
2 in accordance with the following:

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

12 (b) Drilling, producing or secondary recovery
13 operations performed hereunder upon any tract of unitized lands
14 shall be accepted and deemed to be performed upon and for the
15 benefit of each and every tract of unitized land, and no lease
16 shall be deemed to expire by reason of failure to drill or pro-
17 duce wells situated on land therein embraced.

18 (c) Suspension of drilling or producing operations
19 on all unitized lands pursuant to direction or consent of the
20 Secretary or his duly authorized representative, shall be deemed
21 to constitute such suspension pursuant to such direction or con-
22 sent as to each and every tract of unitized land.

23 (d) Each lease, sublease, or contract relating to
24 the exploration, drilling, development or operation for oil and
25 gas which by its terms might expire prior to the termination of
26 this agreement, is hereby extended beyond any such term so pro-
27 vided therein, so that it shall be continued in full force and

1 effect for and during the term of this agreement.

2 (e) The segregation of any federal lease committed
3 to this agreement is governed by the following provision in
4 the fourth paragraph of Article 17(j) of the Mineral Leasing
5 Act, as amended by the Act of September 2, 1960 (74 Stat.
6 781-784): "Any (Federal) lease heretofore or hereafter committed
7 to any such (unit) plan embracing lands that are in part within
8 and in part outside of the area covered by any such plan shall
9 be segregated into separate leases as to the lands committed
10 and the lands not committed as of the effective date of unitiza-
11 tion; provided, however, that any such lease as to the non-
12 unitized portion shall continue in force and effect for the term
13 thereof but for not less than two years from the date of such
14 segregation and so long thereafter as oil or gas is produced
15 in paying quantities".

16 19.3 Termination of this agreement shall not affect any
17 lease which, pursuant to the terms thereof or any applicable
18 laws, shall continue in force and effect thereafter.

19 ARTICLE XX

20 COVENANTS RUN WITH LAND

21 20.1 All terms and conditions herein contained shall
22 be construed to be covenants running with the land with respect
23 to the interest of the parties hereto and their successors in
24 title until this agreement terminates, and any grant, transfer,
25 conveyance or any passage of any interest in land or leases sub-
26 ject hereto, no matter how accomplished, shall be and hereby is
27 conditioned upon the assumption of all privileges and obligations

1 by such successor in interest. By way of illustration, but
2 not limitation, if any working interest owner shall, after
3 executing this agreement and the unit operating agreement,
4 create any overriding royalty, production payment or any
5 similar interest out of its interest, the new owner, or owners,
6 of such interest, or interests, shall be bound by the terms
7 of this agreement and the unit operating agreement. No assign-
8 ment or transfer of any working interest subject hereto shall
9 be binding upon unit operator until the first day of the calen-
10 dar month after unit operator is furnished with the original,
11 or acceptable photostatic or certified copy, of the recorded
12 instrument of transfer; and no assignment or transfer of a
13 royalty interest subject hereto shall be binding upon the
14 working interest owner responsible therefor until the first
15 day of the calendar month after said working interest owner
16 is furnished with the original, or acceptable photostatic or
17 certified copy, of the recorded instrument of transfer.

18 ARTICLE XXI

19 EFFECTIVE DATE AND TERM

20 21.1 This agreement shall become binding upon each party
21 who executes or ratifies it as of the date of execution or
22 ratification by such party and shall become effective as of 7:00
23 a.m. of the first day of the calendar month next following:

24 (a) The execution or ratification of this agreement
25 and the unit operating agreement by working interest owners of
26 tracts comprising eighty percent (80%) or more, on a surface
27 acreage basis, of the unit area as shown on the original Exhibit

1 "B" and which are qualified under the provisions of Article
2 XIII; and

3 (b) The filing of this agreement for approval by
4 the Commission and the Supervisor;
5 and provided further that if (a) and (b) above are not accom-
6 plished on or before July 1, 1970, this agreement shall ipso
7 facto expire on said date (hereinafter called "expiration
8 date") and thereafter be of no further force or effect, unless
9 prior thereto this agreement has been executed or ratified by
10 working interest owners owning a combined participation of at
11 least eighty percent (80%), and that working interest owners
12 owning in the aggregate eighty percent (80%) or more of the
13 total participating acreage committed to this agreement have
14 decided to extend said expiration date for a period not to
15 exceed six months (hereinafter called "extended expiration
16 date"). If said expiration date is so extended and (a) and
17 (b) are not accomplished on or before said extended expiration
18 date, this agreement shall ipso facto expire on said extended
19 expiration date and thereafter be of no further force or effect.

20 21.2 Unit operator shall, within thirty (30) days after
21 the effective date of this agreement, file for record in the
22 office where a counterpart of this agreement is recorded, a
23 certificate to the effect that this agreement has become effec-
24 tive according to its terms and stating further the effective
25 date.

26 21.3 The term of this agreement shall be for and during
27 the time that unitized substances are produced in quantities

1 sufficient to pay for the cost of producing the same from
2 wells on the unitized land and so long thereafter as drilling,
3 reworking or other operations (including secondary recovery
4 operations) are prosecuted thereon without cessation of more
5 than ninety (90) consecutive days, and so long thereafter as
6 unitized substances are produced as aforesaid.

7 21.4 This agreement may be terminated at any time for
8 any other reason with the approval of the Supervisor by working
9 interest owners owning seventy-five percent (75%) participation.
10 Notice of any such termination shall be given to all parties
11 hereto and a copy filed by unit operator in the office of the
12 County Clerk of Eddy County, New Mexico.

13 21.5 Upon termination of this agreement, the parties
14 hereto shall be governed by the terms and provisions of the
15 leases and contracts affecting the separate tracts.

16 21.6 If not otherwise covered by the leases unitized
17 under this agreement, royalty owners hereby grant working interest
18 owners a period of six months after termination of this agreement
19 in which to salvage, sell, distribute or otherwise dispose of
20 the personal property and facilities used in connection with
21 unit operations.

22 ARTICLE XXII

23 RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION

24 22.1 All production and the disposal thereof shall be
25 in conformity with allocations and quotas made or fixed by
26 any duly authorized person or regulatory body under any federal
27 or state statute. The Director is hereby vested with authority
28 to alter or modify from time to time, in his discretion, the

1 rate of prospecting and development and within the limits
2 made or fixed by the Commission to alter or modify the quantity
3 and rate of production under this agreement, such authority
4 being hereby limited to alteration or modification in the public
5 interest, the purpose thereof and the public interest to be
6 served thereby to be stated in the order of alteration or modi-
7 fication.

8 22.2 Powers in this article vested in the Director shall
9 only be exercised after notice to unit operator and opportunity
10 for hearing to be held not less than fifteen days from notice
11 and thereafter subject to administrative appeal before becoming
12 final.

13 ARTICLE XXIII

14 NON-DISCRIMINATION

15 23.1 In connection with the performance of work under
16 this agreement, the unit operator agrees to comply with all of
17 the provisions of Section 202 (1) to (7), inclusive, of Executive
18 Order 11246, (30 F.R. 12319), which are hereby incorporated by
19 reference in this agreement.

20 ARTICLE XXIV

21 APPEARANCES

22 24.1 Unit operator, after notice to other parties
23 affected, shall have the right to appear for or on behalf of
24 any and all interests affected hereby before the Department,
25 and the Commission, and to appeal from any order issued under
26 the rules and regulations of the Department or the Commission,
27 or to apply for relief from any of said rules and regulations

1 or in any proceedings relative to operations before the Depart-
2 ment or the Commission or any other legally constituted autho-
3 rity; provided, however, that any other interested party shall
4 also have the right at his or its own expense to be heard in
5 any such proceeding.

6 ARTICLE XXV

7 NOTICES

8 25.1 All notices, demands, objections or statements
9 required hereunder to be given or rendered to the parties hereto
10 shall be deemed fully given if made in writing and personally
11 delivered to the party or parties or sent by postpaid, certified
12 mail, addressed to such party or parties at their respective
13 addresses set forth in connection with the signatures hereto
14 or to the ratification or consent hereof or to such other address
15 as any such party or parties may have furnished in writing to
16 the party sending the notice, demand or statement.

17 ARTICLE XXVI

18 NO WAIVER OF CERTAIN RIGHTS

19 26.1 Nothing in this agreement contained shall be con-
20 strued as a waiver by any party hereto of the right to assert any
21 legal or constitutional right or defense as to the validity or
22 invalidity of any law of the state wherein said unitized lands
23 are located, or of the United States or the rules or regulations
24 issued thereunder in any way affecting such party, or as a waiver
25 by any such party of any right beyond his or its authority to
26 waive.

27 ARTICLE XXVII

28 PERSONAL PROPERTY EXCEPTED

29 27.1 Each of the working interest owners hereto has

1 heretofore individually placed in or on the wells drilled by
2 such working interest owner on its leases or interests and in
3 or on the land covered by said leases or interests certain
4 casing, casing flanges, tubing, rods, pipes, tanks, as well
5 as other lease and well equipment or other personal property
6 (to all of which the provisions hereof are applicable whether
7 similar or dissimilar in nature to the foregoing enumeration).
8 As to all of such equipment the installing working interest
9 owner has the contractual right in and under its respective
10 leases to remove same from the premises, and the installation
11 thereof by said working interest owner was with the intention
12 and understanding that all of such equipment would be and remain
13 personal property and that no part thereof would be or become
14 fixtures to the realty. The working interest owners hereto
15 have dealt separately among themselves and do hereby make a
16 separate agreement with each other with respect to such lease
17 and well equipment and all other such personal property located
18 in or on the well or their respective leases, on the one hand,
19 and the realty, leasehold estates and the wells (exclusive of
20 all equipment in or on said wells) located on and the unitized
21 substances underlying the unit area, on the other hand. To
22 that end, the working interest owners have severed, and do
23 hereby sever for all purposes of this agreement, all such lease
24 and well equipment and other such personal property which may
25 be located in or on the respective leases or in or on the wells
26 thereon from the real leasehold estates and the wells located
27 on and and the unitized substances underlying the unit area.
28 To confirm their respective investments in such equipment,

1 working interest owners have made a separate agreement with
2 each other with respect thereto.

3 ARTICLE XXVIII

4 UNAVOIDABLE DELAY

5 28.1 All obligations under this agreement requiring
6 the unit operator to commence or continue secondary recovery
7 operations or to operate on or produce unitized substances from
8 any of the lands covered by this agreement shall be suspended
9 while, but only so long as the unit operator, despite the exer-
10 cise of due care and diligence, is prevented from complying
11 with such obligations, in whole or in part, by strikes, acts
12 of God, Federal, state or municipal law or agency, unavoidable
13 accident, uncontrollable delays in transportation, inability to
14 obtain necessary materials in open market, or other matters
15 beyond the reasonable control of the unit operator whether
16 similar to matters herein enumerated or not. No unit obligation
17 which is suspended pursuant to this section shall become due
18 less than thirty (30) days after it has been determined that
19 the suspension is no longer applicable. Determination of
20 creditable "unavoidable delay" time shall be made by unit
21 operator subject to the approval of the Supervisor.

22 ARTICLE XXIX

23 LOSS OF TITLE

24 29.1 If any tract of unitized land ceases to have suffi-
25 cient working interest or royalty interest committed to this
26 agreement to meet the conditions of Article XIII because of
27 failure of title of any party hereto, such tract shall be regarded

1 as not committed hereto as of 7:00 a.m. on the first day of
2 the calendar month in which such failure of title is finally
3 determined; provided, however, that no such tract shall be so
4 regarded if same can be requalified under said Article XIII
5 within ninety (90) days after the date on which such title
6 failure was finally determined. If any such tract cannot be
7 so requalified, unit operator shall recompute the tract partici-
8 pation of each tract of unitized land remaining subject to this
9 agreement so that such tract participations shall remain in
10 the same ratio one to another. Thereafter, unit operator shall
11 revise Exhibit "C" conformably with such recomputation. After
12 approval by the Supervisor, each such revised Exhibit "C" shall
13 be effective at 7:00 a.m. on the first day of the calendar month
14 in which such failure of title is finally determined. If title
15 to a working interest fails; the rights and obligations of
16 working interest owners by reason of such failure shall be
17 governed by the unit operating agreement. If title to a royalty
18 interest fails, but the tract to which it relates remains com-
19 mitted to this agreement, the royalty owner whose title failed
20 shall not be entitled to participate hereunder insofar as its
21 participation is based on such lost royalty interest. In the
22 event of a dispute as to the title to any working or royalty
23 interest, payment or delivery on account thereof may be withheld
24 without liability or interest until the dispute is finally
25 settled; provided, that as to Federal land or leases, no pay-
26 ments of funds due the United States of America shall be with-
27 held, but such funds shall be deposited as directed by the

1 Supervisor, to be held as unearned money pending final settle-
2 ment of the title dispute, and then applied as earned or returned
3 in accordance with such final settlement.

4 29.2 Unit operator, as such, is relieved from any respon-
5 sibility for any defect or failure of any title hereunder.

6 ARTICLE XXX

7 BORDER AGREEMENTS

8 30.1 Subject to the approval of the Supervisor, the unit
9 operator with the concurrence of working interest owners owning
10 at least sixty-five percent (65%) of participation, may enter
11 into a border protection agreement or agreements with the working
12 interest owners of lands adjacent to the committed tracts with
13 respect to the operations in the border area for the maximum
14 ultimate recovery, conservation purposes and proper protection
15 of the parties and interests.

16 ARTICLE XXXI

17 NON-JOINDER AND SUBSEQUENT JOINDER

18 31.1 Joinder by any royalty and record owner, at any
19 time, must be accompanied by appropriate joinder of the corres-
20 ponding working interest owner in order for the interest of such
21 royalty and record owner to be regarded as committed. Joinder
22 to the unit agreement by a working interest owner, at any time,
23 must be accomplished by appropriate joinder to the unit operating
24 agreement in order for such interest to be regarded as committed
25 to this unit agreement.

26 31.2 Any oil or gas interest in the unitized formation
27 not committed hereto prior to submission of this agreement for

1 final approval by the Supervisor may thereafter be committed
2 hereto upon compliance with the applicable provisions of this
3 article and of Article XIII (Tracts Qualified for Participation)
4 hereof, at any time up to the effective date hereof on the same
5 basis of participation as provided in said Article XIII, by the
6 owner or owners thereof subscribing, ratifying or consenting in
7 writing to this agreement and, if the interest is a working
8 interest, by the owner of such interest subscribing also to the
9 unit operating agreement.

10 31.3 It is understood and agreed, however, that on and
11 after the effective date hereof the right of subsequent joinder
12 by a working interest owner as provided in this article shall
13 be subject to such requirements or approvals and on such basis
14 as may be agreed upon by working interest owners having not less
15 than eighty percent (80%) participation, and approved by the
16 Supervisor. Such subsequent joinder by a proposed working interest
17 owner must be evidenced by his execution or ratification of this
18 agreement and the unit operating agreement. Subsequent joinder
19 by a proposed royalty owner must be evidenced by his execution,
20 ratification or consent of this agreement and must be consented
21 to in writing by the working interest owner responsible for the
22 payment of any benefits that may accrue hereunder in behalf of
23 such proposed royalty owner. Except as may be otherwise herein
24 provided, subsequent joinder to this agreement shall be effective
25 at 7:00 a.m. as of the first day of the month following the filing
26 with the Supervisor of duly executed counterparts of any and all
27 documents necessary to establish effective commitment of any

1 tract or interest to this agreement, unless objection to such
2 joinder by the Supervisor is duly made within sixty (60) days
3 after such filing.

4 ARTICLE XXXII

5 TAXES

6 32.1 Each party hereto shall, for its own account, render
7 and pay its share of any taxes levied against or measured by the
8 amount or value of the unitized substances produced from the
9 unitized land; provided, however, that if it is required or if
10 it be determined that the unit operator or the several working
11 interest owners must pay or advance said taxes for the account
12 of the parties hereto, it is hereby expressly agreed that the
13 parties so paying or advancing said taxes shall be reimbursed
14 therefor by the parties hereto, including royalty owners, who
15 may be responsible for the taxes on their respective allocated
16 share of said unitized substances. No such taxes shall be
17 charged to the United States or to any lessor who has a contract
18 with a lessee which requires his lessee to pay such taxes.

19 ARTICLE XXXIII

20 NO PARTNERSHIP

21 33.1 The duties, obligations and liabilities of the
22 parties hereto are intended to be several and not joint or
23 collective. This agreement is not intended to create, and shall
24 not be construed to create, an association or trust, or to impose
25 a partnership duty, obligation or liability with regard to any
26 one or more of the parties hereto. Each party hereto shall be
27 individually responsible for its own obligations as herein provided.

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ARTICLE XXXIV

PRODUCTION AS OF THE EFFECTIVE DATE

34.1 Unit operator shall make a proper and timely gauge of all lease and other tanks on unitized land in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 a.m. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall be and remain the property of the working interest owner entitled thereto, the same as if the unit had not been formed; and such working interest owner shall promptly remove said oil from unitized land. Any such oil not so removed may be sold by unit operator for the account of such working interest owner, subject to the payment of all royalty to royalty owners under the applicable lease or leases and other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as unitized substances produced after the effective date hereof.

34.2 If, as of the effective date hereof, any tract is overproduced with respect to the allowable of the wells on that tract and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded as a part of the unitized substances produced after the effective date hereof and shall be charged to such tract as having been delivered to the parties entitled to unitized substances allocated to such tract.

ARTICLE XXXV

COUNTERPARTS

35.1 This agreement may be executed in any number of

1 counterparts, no one of which needs to be executed by all
2 parties and may be ratified or consented to by separate instru-
3 ments in writing specifically referring hereto, and shall be
4 binding upon all those parties who have executed such a counter-
5 part, ratification or consent hereto with the same force and
6 effect as if all parties had signed the same document, and
7 regardless of whether or not it is executed by all other parties
8 owning or claiming an interest in the land within the above de-
9 scribed unit area.

10 IN WITNESS WHEREOF, the parties hereto have caused this
11 agreement to be executed as of the day and year first hereinabove
12 written.

Date: Nov. 11, 1969

Address: Box 873

Midland Texas

J. J. Travis

J. J. Travis
UNIT OPERATOR AND WORKING INTEREST OWNER

Travis
Travis

Date: _____

Address: _____

Henry Ashforth

Ashforth

Date: _____

Address: _____

David G. Baird

Baird

Date: _____

Address: _____

CHAMBERS & KENNEDY

By _____

By _____

Date: _____

Address: _____

Dr. Herbert Conway

Conway

Date: _____

Address: _____

ATTEST:

Secretary

Date: _____

Address: _____

Date: _____

Address: _____

Date: _____

Address: _____

Date: _____

Address: _____

Date: _____

Address: _____

ATTEST:

Secretary

Theodore Kapnek

Kapnek

MARK PRODUCTION COMPANY

By _____

President

Joseph Patrick

Patrick

Louis F. Polk

Polk

Louis F. Polk, Jr.

Polk

TEXACO INC.

By _____

President

STATE OF TEXAS)

COUNTY OF MIDLAND)

: ss

The foregoing instrument was acknowledged before me this 11 day of July 1969 by J. J. Travis and Houma Travis, his wife.

My Commission Expires: 1971

Lily Carden
Notary Public

CONSENT AND RATIFICATION
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, being the operator designated in that certain Operating Agreement made and entered into on the 16th day of April, 1969 by and between B. M. Keohane and others as owners and J. J. Travis as operator covering federal lease NM 025778 embracing the following described lands situated in Eddy County, New Mexico, to-wit:

Township 18 South, Range 31 East
Section 20 - E $\frac{1}{2}$ NE $\frac{1}{4}$
containing 80 acres, more or less,

and also being the unit operator designated in the Unit Agreement for the Development and Operation of the North Shugart Queen Unit Area, in which said unit agreement the above described lands are described on Exhibit "B" as Tract No. 4, does hereby commit said leasehold interest as to the above described lands to said unit agreement under the authority granted to the undersigned under the provisions of Paragraph 4 of said Operating Agreement, which is as follows, to-wit:

"4. Operator shall have the right to commit said oil and gas lease to a unit agreement approved by the authorized representative of the Department of the Interior providing for carrying on secondary recovery operations as to all or any zone or formations down to and including a depth of 4,000 feet below the surface, without the consent or approval of Owners."

The undersigned does hereby commit the above interest to said unit agreement and does hereby consent to and ratify all of the terms and provisions of said unit agreement and the unit operating agreement entered into in connection therewith as to the above interest exactly the same as if all of the record title owners in and to said oil and gas lease had executed the original of said unit agreement and unit operating agreement.

IN WITNESS WHEREOF, this instrument is executed on this the 29 day of June, 1970.

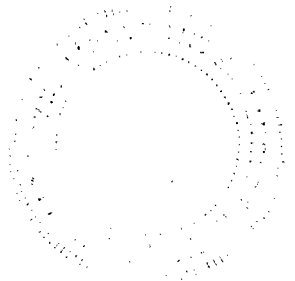
L. J. Davis

STATE OF TEXAS)
 : ss
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 29 day of June, 1970 by J. J. Travis.

My Commission Expires:
June 1, 1971

B. Moss Grogan
Notary Public



Dorothy Jane Smith
Dorothy Jane Smith

Nancy Ann Smith Vallee
Nancy Ann Smith Vallee

Sophie Jean Dunn
Sophie J. Dunn

STATE OF TEXAS)
COUNTY OF DALLAS) ss

The foregoing instrument was acknowledged before me this 26th day of January 1970 by DOROTHY JANE SMITH.

Gaylord Thompson
Notary Public

My Commission Expires:
June 1, 1971

STATE OF TEXAS)
COUNTY OF DALLAS) ss

The foregoing instrument was acknowledged before me this 26th day of January 1970 by NANCY ANN SMITH VALLEE.

Gaylord Thompson
Notary Public

My Commission Expires:
June 1, 1971

STATE OF TEXAS)
COUNTY OF DALLAS) ss

The foregoing instrument was acknowledged before me this 26th day of January 1970 by SOPHIE J. DUNN.

Gaylord Thompson
Notary Public

My Commission Expires:
June 1, 1971

CONSENT AND RATIFICATION
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the North Shugart Queen Unit Area embracing lands situated in Eddy County, New Mexico, which said agreement is dated the 11th day of November, 1969, together with a copy of the Unit Operating Agreement in connection therewith, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or interests in the lands or minerals embraced in said unit area, as indicated on the schedule attached to said unit agreement as Exhibit "B", do hereby commit all of their said interests to the North Shugart Queen Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof and of the unit operating agreement exactly the same as if the undersigned had executed the original of said unit agreement and unit operating agreement or counterparts thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST: _____
Harlan
Assistant Secretary

GULF OIL CORPORATION

T. W. Kidd
Attorney in Fact

STATE OF NEW MEXICO)
COUNTY OF CHAVES) : ss

The foregoing instrument was acknowledged before me this 22nd day of April 1970 by T. W. KIDD, Attorney in Fact for GULF OIL CORPORATION, a Pennsylvania Corporation.

My Commission Expires: _____
August 15, 1970

Edna Marie Pope
Notary Public

STATE OF _____)
COUNTY OF _____) : ss

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by _____

My Commission Expires: _____

Notary Public

CONSENT AND RATIFICATION
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the North Shugart Queen Unit Area embracing lands situated in Eddy County, New Mexico, which said agreement is dated the 11th day of November, 1969, together with a copy of the Unit Operating Agreement in connection therewith, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or interests in the lands or minerals embraced in said unit area, as indicated on the schedule attached to said unit agreement as Exhibit "B", do hereby commit all of their said interests to the North Shugart Queen Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof and of the unit operating agreement exactly the same as if the undersigned had executed the original of said unit agreement and unit operating agreement or counterparts thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

STATE OF TEXAS)
 : ss
COUNTY OF MIDLAND)

CHAMBERS & KENNEDY

By: W. D. Kennedy

By: C. Fred Chambers

The foregoing instrument was acknowledged before me this 6th day of _____ 1970 by C. Fred Chambers and W. D. Kennedy,
dba Chambers & Kennedy.

My Commission Expires:

June 1, 1971

Kathleen Cain
Notary Public

STATE OF _____)
 : ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by _____

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the North Shugart Queen Unit Area embracing lands situated in Eddy County, New Mexico, which said agreement is dated the 11th day of November, 1969, together with a copy of the Unit Operating Agreement in connection therewith, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or interests in the lands or minerals embraced in said unit area, as indicated on the schedule attached to said unit agreement as Exhibit "B", do hereby commit all of their said interests to the North Shugart Queen Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof and of the unit operating agreement exactly the same as if the undersigned had executed the original of said unit agreement and unit operating agreement or counterparts thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

APPROVED AS TO:

W. F. Dullnig
Terms W. F. Dullnig
Form W. F. Dullnig
Acctg. W. F. Dullnig

TEXACO INC.

By E. H. Dullnig
Attorney-in-Fact

STATE OF Texas

COUNTY OF Midland

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 20th day of April, 1970.

My Comm. expires: 6-1-71

E. H. Dullnig
Notary Public in and for Midland County, Texas.

CONSENT AND RATIFICATION
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and operation of the North Shugart Queen Unit Area embracing lands situated in Eddy County, New Mexico, which said agreement is dated the 12th day of November 1969, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned being the owners of royalty or other interests in the lands or minerals embraced in said unit area, as indicated on the schedule attached to said unit agreement as Exhibit "B", do hereby commit all of their said interests to the North Shugart Queen Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said unit agreement or counterparts thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

3 SONS, INC.

[Signature]
Province of
~~STATE OF~~ Alberta)
Dominion : ss
~~COUNTRY OF~~ Canada)

[Signature]

The foregoing instrument was acknowledged before me this 22nd day of December 1969 by Ken Jennings, President of 3 Sons, Inc., a corporation, on behalf of said corporation.

My Commission Expires:

September 5, 1971

STATE OF _____)
: ss
COUNTY OF _____)

[Signature]
~~Notary Public~~
Commissioner for Oaths for the Province of
Alberta

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by _____

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and operation of the North Shugart Queen Unit Area embracing lands situated in Eddy County, New Mexico, which said agreement is dated the 11th day of November 1969, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned being the owners of royalty or other interests in the lands or minerals embraced in said unit area, as indicated on the schedule attached to said unit agreement as Exhibit "B", do hereby commit all of their said interests to the North Shugart Queen Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said unit agreement or counterparts thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

STATE OF Oregon)
COUNTY OF Josephine) : ss

The foregoing instrument was acknowledged before me this _____ day of April 1969 by T. R. PARKER

My Commission Expires:

MAR 6, 1974

STATE OF _____)
COUNTY OF _____) : ss

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by _____

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and operation of the North Shugart Queen Unit Area embracing lands situated in Eddy County, New Mexico, which said agreement is dated the 11th day of November 1969, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned being the owners of royalty or other interests in the lands or minerals embraced in said unit area, as indicated on the schedule attached to said unit agreement as Exhibit "B", do hereby commit all of their said interests to the North Shugart Queen Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said unit agreement or counterparts thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:
(Seal)
Marjorie Whipple
Marjorie Whipple, Asst. Secretary
STATE OF _____)
: ss
COUNTY OF _____)

APCO OIL CORPORATION
By W. H. Davis CFW
W. H. Davis, Senior Vice President

The foregoing instrument was acknowledged before me this ____ day of _____ 1969 by _____

My Commission Expires: _____

Notary Public

STATE OF OKLAHOMA)
: ss
COUNTY OF OKLAHOMA)

The foregoing instrument was acknowledged before me this 26th day of November 1969 by W. H. DAVIS, SENIOR VICE PRESIDENT, of APCO OIL CORPORATION, a Delaware corporation, on behalf of said corporation

(Seal)
My Commission Expires: _____

James S. Adams
Notary Public

CONSENT AND RATIFICATION
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and operation of the North Shugart Queen Unit Area embracing lands situated in Eddy County, New Mexico, which said agreement is dated the 17th day of November 1969, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned being the owners of royalty or other interests in the lands or minerals embraced in said unit area, as indicated on the schedule attached to said unit agreement as Exhibit "B", do hereby commit all of their said interests to the North Shugart Queen Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said unit agreement or counterparts thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Attest:

Ned B. Watson
Secretary.

STATE OF New Mexico)
: ss
COUNTY OF Eddy)

MERCURY OIL COMPANY.

B. M. Keohane
Vice-President

The foregoing instrument was acknowledged before me this 21st day of November 1969 by B. M. Keohane, Vice-President of Mercury Oil Company, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:
Oct. 8, 1970

Lela E. Scott
Notary Public

STATE OF _____)
: ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by _____

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the North Shugart Queen Unit Area embracing lands situated in Eddy County, New Mexico, which said agreement is dated the 11th day of November, 1969, together with a copy of the Unit Operating Agreement in connection therewith, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or interests in the lands or minerals embraced in said unit area, as indicated on the schedule attached to said unit agreement as Exhibit "B", do hereby commit all of their said interests to the North Shugart Queen Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof and of the unit operating agreement exactly the same as if the undersigned had executed the original of said unit agreement and unit operating agreement or counterparts thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

STATE OF Texas)

COUNTY OF Midland)

: ss

The foregoing instrument was acknowledged before me this 12th day of February 1969 by Jack Thiff & Lewis B. Thiff

My Commission Expires: June 1, 1971

Don Worthington
Notary Public

STATE OF _____)

COUNTY OF _____)

: ss

The foregoing instrument was acknowledged before me this _____ day of _____ 1969 by _____

My Commission Expires: _____

Notary Public

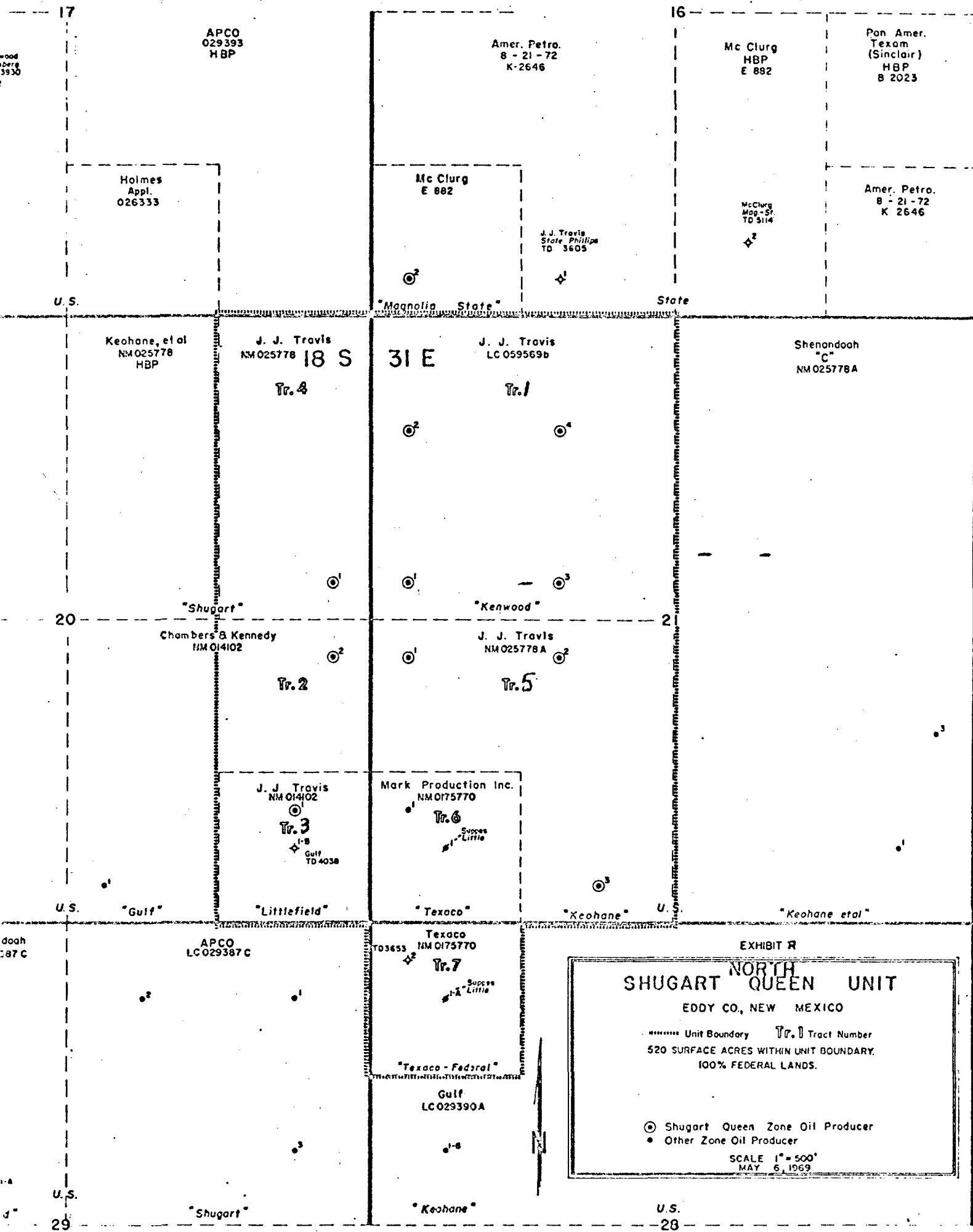


EXHIBIT A

NORTH SHUGART QUEEN UNIT

EDDY CO, NEW MEXICO

..... Unit Boundary Tr. 1 Tract Number

520 SURFACE ACRES WITHIN UNIT BOUNDARY.

100% FEDERAL LANDS.

⊙ Shugart Queen Zone Oil Producer

• Other Zone Oil Producer

SCALE 1" = 500'

MAY 6, 1969

EXHIBIT "B"
NORTH SHUGART QUEEN UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

Tract No.	Description	No. of Acres	Lease No. & Expiration Date	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty & Production Payments	Working Interest Owner and Percentage
All in Township 18 South, Range 31 East, N.M.P.M.							
1	NW $\frac{1}{4}$ Sec. 21	160	LC 059569(b) 12/1/79	USA - All (Sch. D)	Apco Oil Corp. - 73% T. R. Parker - 27%	3 Sons, Inc. - 3% ORR	J. J. Travis - SW $\frac{1}{4}$ NW $\frac{1}{4}$ to 3810 feet; NW $\frac{1}{4}$ NW $\frac{1}{4}$ to 3400 feet; SE $\frac{1}{4}$ NW $\frac{1}{4}$ to 3660 feet; NE $\frac{1}{4}$ NW $\frac{1}{4}$ to 3414 feet
2	NE $\frac{1}{4}$ SE $\frac{1}{4}$ Sec. 20	40	NM 014102 HBP	USA - All (Sch. B)	Gulf Oil Corp.	Gulf Oil Corporation - 5% if production averages 15 bbl. or less - 9.375% if production averages more than 15 bbl per day Burleson & Huff - 3.125%	C. Fred Chambers and W. D. Kennedy, dba Chambers & Kennedy, down to depth of 4,000 feet
3	SE $\frac{1}{4}$ SE $\frac{1}{4}$ Sec. 20	40	NM 014102 HBP	USA - All (Sch. B)	Gulf Oil Corp.	Lewis B. Burleson and Jack Huff - 3% ORR	Gulf Oil Corporation *
4	E $\frac{1}{2}$ NE $\frac{1}{4}$ Sec. 20	80	NM 025778 12/1/79	USA - All (Sch. D)	*B. M. Keohane, V. S. Welch, dec., S. J. Iverson, Jewell D. Iverson, Dorothy C. Iverson, Iverson's Inc., Elyse Saunders Patterson, Sue Saunders Graham, Sally Saunders Toles	PP \$100.00 per acre out of 5% - Mercury Oil Company	J. J. Travis - down to 4000 feet
5	N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 21	120	NM 025778-A HBP	USA - All (Sch. D)	Gulf Oil Corp.	Lewis B. Burleson and Jack Huff - 3% ORR	Down to 3900 feet - J. J. Travis - 90.32% Carried Int. - Gulf Oil Corp. - 9.68%

Tract No.	Description	No. of Acres	Lease No. & Expiration Date	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty & Production Payments	Working Interest Owners and Percentage
6	SW $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 21	40	NM 0175770 HBP	USA - All (Sch. B)	Texaco Inc.	1/8 of 8/8 - Texaco Inc. to depth of 3627 feet; Jack Huff and Lewis B. Burleson - 5% ORR	Texaco Inc. ***
7	NW $\frac{1}{4}$ NW $\frac{1}{4}$ Sec. 28	40	NM 0175770 HBP	USA - All (Sch. B)	Texaco Inc.	None	Texaco Inc.)
7 tracts of Federal lands containing 520 acres							

* Gulf Oil Corporation has assigned the rights down to 3,750 feet below the surface to J. J. Travis and this assignment will be filed with the Bureau of Land Management.

** J. J. Travis, operator under an operating agreement, has the right to commit leasehold interest to unit.

*** The working interest down to a depth of 3627 feet is owned under a farmout or operating agreement between Texaco Inc. and Ray Smith. The sole and only heirs of Ray Smith who have executed Consents and Ratifications are Dorothy Jane Smith, Nancy Ann Smith Vallee and Sophie J. Dunn.

EXHIBIT "C"

SCHEDULE SHOWING PERCENTAGE OF PARTICIPATION OF TRACTS IN UNIT

Tract No.	Description	Working Interest Owners and Percentage	No. of Acres	Percent Participation of Tract in Unit
All in Township 18 South, Range 31 East, N.M.P.M.				
1	NW $\frac{1}{4}$ Sec. 21	J. J. Travis - SW $\frac{1}{4}$ NW $\frac{1}{4}$ down to 3810 feet NW $\frac{1}{4}$ NW $\frac{1}{4}$ down to 3400 feet SE $\frac{1}{4}$ NW $\frac{1}{4}$ down to 3660 feet NE $\frac{1}{4}$ NW $\frac{1}{4}$ down to 3414 feet	160	34.047
2	NE $\frac{1}{4}$ SE $\frac{1}{4}$ Sec. 20	C. Fred Chambers and W. D. Kennedy, dba Chambers & Kennedy, down to depth of 4,000 feet	40	6.923
3	SE $\frac{1}{4}$ SE $\frac{1}{4}$ Sec. 20	Gulf Oil Corporation	40	5.342
4	E $\frac{1}{2}$ NE $\frac{1}{4}$ Sec. 20	J. J. Travis - down to 4,000 feet	80	6.798
5	N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 21	J. J. Travis - down to 3900 feet - 90.32% Carried interest - Gulf Oil Corporation - 9.68%	120	38.240
6	SW $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 21	Heirs of Ray Smith, deceased, namely Dorothy Jane Smith, Nancy Ann Smith Vallee, Sophie J. Dunn	40	7.603
7	NW $\frac{1}{4}$ NW $\frac{1}{4}$ Sec. 28	Texaco Inc.	40	1.047
				100.000

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 4248
Order No. R-3871

APPLICATION OF J. J. TRAVIS
FOR A WATERFLOOD PROJECT, EDDY
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 5, 1969, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 10th day of November, 1969, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, J. J. Travis, seeks permission to institute a waterflood project in his North Shugart Queen Unit Area, Shugart (Yates-Seven Rivers-Queen-Grayburg) Pool, by the injection of water into the Queen formation through nine injection wells at orthodox and unorthodox locations in Sections 20 and 21, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico.
- (3) That the applicant further seeks the establishment of an administrative procedure whereby the Secretary-Director of the Commission may authorize additional injection wells at orthodox and unorthodox locations within said waterflood project area as may be necessary to complete an efficient injection pattern without the necessity of showing well response.

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CASE No. 4248

Order No. R-3871

(4) That the wells in the project area are in an advanced state of depletion and should properly be classified as "stripper" wells.

(5) That the proposed waterflood project should result in the recovery of otherwise unrecoverable oil, thereby preventing waste.

(6) That the subject application should be approved and the project should be governed by the provisions of Rules 701, 702, and 703 of the Commission Rules and Regulations; provided however, that the showing of well response as required by Rule 701 E-5 shall not be necessary before obtaining administrative approval for the conversion of additional wells to water injection, and provided further, that said injection wells are drilled no closer than 330 feet to the outer boundary of the North Shugart Queen Unit nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

IT IS THEREFORE ORDERED:

(1) That the applicant, J. J. Travis, is hereby authorized to institute a waterflood project in his North Shugart Queen Unit Area, Shugart (Yates-Seven Rivers-Queen-Grayburg) Pool, by the injection of water into the Queen formation through the following-described wells at orthodox and unorthodox locations in Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico:

J. J. Travis Shugart Federal Well No. 1,
located 2310 feet from the North line and
330 feet from the East line of Section 20;

Chambers & Kennedy Gulf Federal Well No. 2,
located 2310 feet from the South line and
330 feet from the East line of Section 20;

J. J. Travis Littlefield Federal Well No. 1-AA,
located 990 feet from the South line and 660
feet from the East line of Section 20;

J. J. Travis Kenwood Federal Well No. 4,
located 990 feet from the North line and
1650 feet from the West line of Section 21;

J. J. Travis Kenwood Federal Well No. 2,
located 990 feet from the North line and
330 feet from the West line of Section 21;

J. J. Travis Kenwood Federal Well No. 3,
located 2310 feet from the North line and
1650 feet from the West line of Section 21;

J. J. Travis Keohane Federal Well No. 2,
located 2310 feet from the South line and
1650 feet from the West line of Section 21;

Mark Production Co. Texaco Federal Well No. 1,
located 990 feet from the South line and
330 feet from the West line of Section 21;

J. J. Travis Keohane Federal Well No. 3,
located 300 feet from the South line and
1980 feet from the West line of Section 21.

(2) That the subject waterflood project is hereby designated the North Shugart Queen Unit Waterflood Project and shall be governed by the provisions of Rules 701, 702, and 703 of the Commission Rules and Regulations;

PROVIDED HOWEVER, that the Secretary-Director of the Commission may approve such additional injection wells at orthodox and unorthodox locations within said waterflood project area as may be necessary to complete an efficient injection pattern; provided said wells are drilled no closer than 330 feet to the outer boundary of the North Shugart Queen Unit nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary, and provided further, that the application therefor has been filed in accordance with Rule 701 B of the Commission Rules and Regulations, and provided further, that a copy of the application has been sent to all offset operators, if any there be, and no such operator has objected within 15 days. The showing of well response as required by Rule 701 E-5 shall not be necessary before obtaining administrative approval for the conversion of additional wells to water injection.

(3) That monthly progress reports of the waterflood project herein authorized shall be submitted to the Commission in accordance with Rules 704 and 1120 of the Commission Rules and Regulations.

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CASE No. 4248

Order No. R-3871

(4) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

DAVID F. CARGO, Chairman

ALEX J. ARMIJO, Member

A. L. PORTER, Jr., Member & Secretary

S E A L

esr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 4247
Order No. R-3870

APPLICATION OF J. J. TRAVIS
FOR APPROVAL OF THE NORTH
SHUGART QUEEN UNIT AGREEMENT,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 5, 1969,
at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 10th day of November, 1969, the Commission, a
quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

(1) That due public notice having been given as required by
law, the Commission has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, J. J. Travis, seeks approval of the
North Shugart Queen Unit Agreement covering 520 acres, more or less,
of Federal lands described as follows:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM
Section 20: E/2 E/2
Section 21: W/2
Section 28: NW/4 NW/4

(3) That approval of the proposed unit agreement should
promote the prevention of waste and the protection of correlative
rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the North Shugart Queen Unit Agreement is hereby approved.

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) That this order shall become effective upon the approval of said unit agreement by the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.

(5) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

DAVID F. CARGO, Chairman

ALEX J. ARMIJO, Member

A. L. PORTER, Jr., Member & Secretary

S E A L

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