

NEW MEXICO  
OIL CONSERVATION DIVISION

EXHIBIT 12

CASE NO. 11742

EXHIBIT \_\_\_\_

SOUTHEAST MALJAMAR GRAYBURG SAN ANDRES UNIT  
PROPOSED UNIT EXPANSION SECONDARY RESERVE PROJECTIONS

CURRENT UNIT AREA UNTIMATE PRIMARY PRODUCTION	2,569 MBO
PROJECTED ULTIMATE RECOVERY FROM THE UNIT	6,116 MBO
SECONDARY RECOVERY FROM THE UNIT (6,116-2,569)	3,547 MBO
SECONDARY TO PRIMARY RATIO	1.38

PROPOSED UNIT EXPANSION

ULTIMATE PRIMARY PRODUCTION FROM THE THREE TRACTS ADDED TO THE UNIT	536 MBO
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SECONDARY RECOVERY FROM THE ADDITIONAL TRACTS ASSUMING A SECONDARY TO PRIMARY RATIO OF 1.38	740 MBO
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SECONDARY RECOVERY FROM THE ADDITIONAL TRACTS ASSUMING A SECONDARY TO PRIMARY RATIO OF 1.00	536 MBO
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SECONDARY RECOVERY FROM THE ADDITIONAL TRACTS ASSUMING A SECONDARY TO PRIMARY RATIO OF 0.80	429 MBO
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NEW MEXICO  
OIL CONSERVATION DIVISION

\_\_\_\_ EXHIBIT 13

CASE NO 11742

NEW MEXICO

OIL CONSERVATION DIVISION

Cross Timbers Oil Company

EXHIBIT 14

CO  
0105

SE MALJAMAR UNIT  
CROSS TIMBERS  
MALJAMAR ( GRBG/SA )  
LEA, NEW MEXICO  
LEASE TOTAL  
JWC

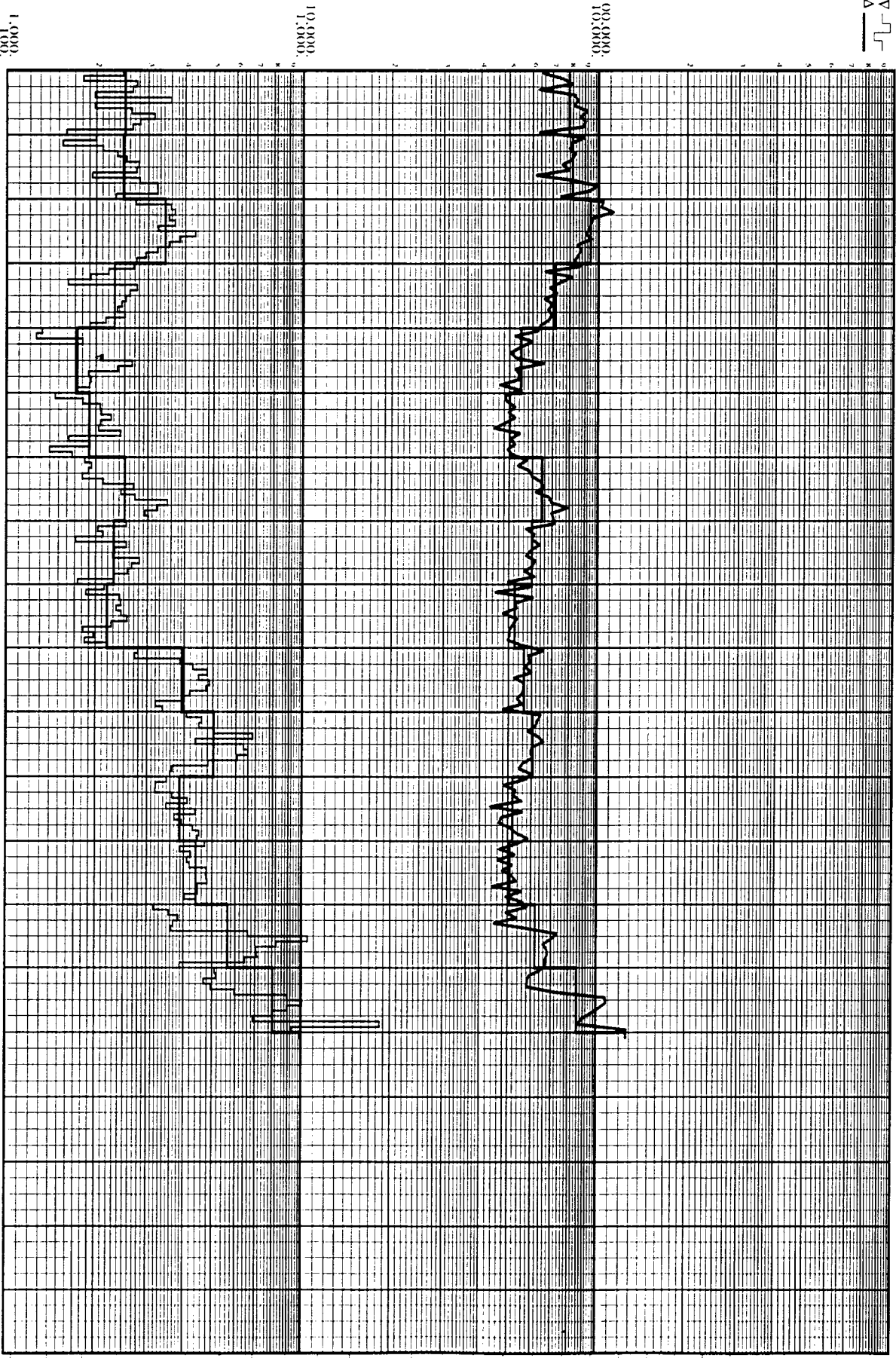
PERMIAN BASIN  
450

CASE NO. 11742

Run Date : 02/17/97  
Run Time: 14:11:32

RFM JEB CP-JBS

GAS (mcf/mo)  $\nabla$   
OIL (bbls/mo)  $\Delta$



03/04/1997

09:15:59 21 P

TIME (years)

01/8

### AMENDED PLAN OF OPERATION

We expect to drill several new producers and injectors to expand the waterflood in the unit. An expansion of the water injection capacity and distribution system will be required. Our specific plan of operations for the three tracts during 1997 are as follows:

#### **U. S. Minerals (Proposed Unit Tract No. 11)**

- Drill a water injection well to provide injection support for the existing three wells.
- Re-fracture stimulate the well No 1 to improve withdrawn rates.

#### **State BY (Proposed Unit Tract No. 12)**

- Convert the No 5 from T/A status to water injection.
- Drill an offset producer to the new water injection well.

#### **Denuis Federal (Proposed Unit Tract No. 13)**

- Convert well No. 9 to water injection.
- Drill an offset producer to the new water injection well.

Any additional wells drilled during 1997 and beyond will be dependent upon the results of the initial waterflood expansion. Potentially the expanded tracts in the waterflood unit could contain an additional eight water injection and ten oil producers.

NEW MEXICO  
OIL CONSERVATION DIVISION

\_\_\_\_\_**EXHIBIT**\_\_\_\_\_ 15

CASE NO. \_\_\_\_\_ 11742

SOUTHEAST MALJAMAR GRAYBURG/SAN ANDRES UNIT												
TRACT ULTIMATE PRIMARY PRODUCTION AND ACREAGE												
CALCULATION OF NEW TRACT PARTICIPATION FACTORS												
				90%	5%	5%						
		TRACT	TRACT	TRACT	TRACT	TRACT	NEW	OLD				
TRACT	TRACT	DEVELOPED	ULTIMATE	ULTIMATE	TRACT	DEVELOPED	TRACT	TRACT				
NO.	ACREAGE	ACREAGE	PRIMARY	PRIMARY	ACREAGE	ACREAGE	FACTOR	FACTOR	DELTA			
1	120	120	484,383	14.036285%	0.468750%	0.483871%	14.988906%	18.101025%	3.112119%			
2	120	120	42,183	1.222365%	0.468750%	0.483871%	2.174986%	2.610205%	0.435219%			
3	40	40	100,061	2.899533%	0.156250%	0.161290%	3.217074%	3.882765%	0.665691%			
4	160	160	126,650	3.670020%	0.625000%	0.645161%	4.940182%	5.946690%	1.006508%			
5	120	120	48,049	1.392348%	0.468750%	0.483871%	2.344968%	2.815695%	0.470727%			
6	160	160	642,864	18.628693%	0.625000%	0.645161%	19.898855%	24.030305%	4.131450%			
7	160	160	624,736	18.103386%	0.625000%	0.645161%	19.373548%	23.395260%	4.021712%			
8	40	40	209,018	6.056852%	0.156250%	0.161290%	6.374393%	7.699665%	1.325272%			
9	80	80	239,266	6.933368%	0.312500%	0.322581%	7.568449%	9.136770%	1.568321%			
10	80	40	51,923	1.504607%	0.312500%	0.161290%	1.978397%	2.381620%	0.409223%			
11	40	40	124,419	3.605371%	0.156250%	0.161290%	3.922912%	0.000000%	-3.922912%	US MINERALS		
12	80	80	198,323	5.746936%	0.312500%	0.322581%	6.382017%	0.000000%	-6.382017%	DENIUS FEDERAL		
13	80	80	213,966	6.200234%	0.312500%	0.322581%	6.835314%	0.000000%	-6.835314%	STATE BY		
	1,280	1,240	3,105,841				100.000000%	100.000000%	0.000000%			
OLD TOTALS	1,080	1,040	2,569,133									

NEW MEXICO  
OIL CONSERVATION DIVISION

EXHIBIT

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CASE NO.

11742

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. 4750  
Order No. R-3134-A

APPLICATION OF CITIES SERVICE  
OIL COMPANY FOR AN UNORTHODOX  
LOCATION, LEA COUNTY, NEW  
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on June 28, 1972, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 19th day of July, 1972, 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, Cities Service Oil Company, is the operator of the Southeast Maljamar Grayburg-San Andres Unit Waterflood Project, Maljamar Pool, Lea County, New Mexico.

(3) That the applicant seeks authority to drill a well at an unorthodox location 1155 feet from the South line and 1385 feet from the East line of Section 29, Township 17 South, Range 33 East, NMPM, Lea County, New Mexico, as a producing well in said Southeast Maljamar Grayburg-San Andres Unit Waterflood Project.

(4) That the proposed unorthodox location is necessary to provide an efficient oil producing pattern.

(5) That the applicant also seeks the establishment of an administrative procedure whereby the Secretary-Director of the Commission may authorize additional producing wells and injection wells at orthodox and unorthodox locations within said Southeast Maljamar Grayburg-San Andres Unit Waterflood Project area as may be necessary to complete an efficient production and injection pattern.

(6) That approval of the requested administrative procedure will afford the applicant the opportunity to produce its just and equitable share of the oil in the Maljamar Pool, provided said wells are drilled no closer than 330 feet to the outer boundary of the above-described unit area nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

(7) That the subject waterflood 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.

IT IS THEREFORE ORDERED:

(1) That the applicant, Cities Service Oil Company, is hereby authorized to drill a well at an unorthodox location 1155 feet from the South line and 1385 feet from the East line of Section 29, Township 17 South, Range 33 East, NMPM, Maljamar Pool, Lea County, New Mexico, as a producing well in its Southeast Maljamar Grayburg-San Andres Unit Waterflood Project.

(2) That Order (2) of Order No. R-3134 is hereby amended to read in its entirety as follows:

"(2) That the subject waterflood project shall continue to 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 producing wells and injection wells at orthodox and unorthodox locations within the Southeast Maljamar Grayburg-San Andres Unit Waterflood Project area as may be necessary to complete an efficient production and injection pattern, provided said wells are drilled no closer than 330 feet to the outer boundary of the Southeast Maljamar Grayburg-San Andres Unit Area nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary, and provided that the application therefor has been filed in accordance with Rule 701 B of the Commission Rules and Regulations, and provided that 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 jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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CASE NO. 4750

Order No. R-3134-A

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

BRUCE KING, Chairman

ALEX J. ARMIJO, Member

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

S E A L

dr/



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. 3462  
Order No. R-3134

APPLICATION OF CITIES SERVICE OIL  
COMPANY FOR A WATERFLOOD PROJECT,  
LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on September 28, 1966,  
at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 14th day of October, 1966, 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, Cities Service Oil Company, seeks  
permission to institute a waterflood project in the Southeast  
Maljamar Grayburg-San Andres Unit Area, Maljamar (Grayburg-San  
Andres) Pool, by the injection of water into the Grayburg-San  
Andres formation through eleven injection wells in Sections 29,  
30, and 32, Township 17 South, Range 33 East, NMPM, Lea County,  
New Mexico.

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

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

(5) That the applicant further seeks the establishment of an administrative procedure whereby additional wells, within the said unit area, could be placed on water injection.

(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.

IT IS THEREFORE ORDERED:

(1) That the applicant, Cities Service Oil Company, is hereby authorized to institute a waterflood project in the Southeast Maljamar Grayburg-San Andres Unit Area, Maljamar (Grayburg-San Andres) Pool, by the injection of water into the Grayburg-San Andres formation through the following-described wells in Township 17 South, Range 33 East, NMPM, Lea County, New Mexico:

Cities Service	Shell St. "A"	# 1	1980'	FSL	660'	FWL	Section 29
Cities Service	Shell St. "A"	# 2	660'	FSL	1980'	FWL	Section 29
Cities Service	Philmex St. "A"	# 6	990'	FNL	2310'	FEL	Section 29
Cities Service	Philmex St. "A"	# 5	2310'	FNL	990'	FEL	Section 29
Phillips	Philmex	# 3	1980'	FNL	1980'	FWL	Section 29
Phillips	Philmex	# 7	660'	FNL	660'	FWL	Section 29
Shell	State "A"	# 2	1980'	FSL	1980'	FEL	Section 29
Shell	State "A"	# 3	660'	FSL	990'	FEL	Section 29
Cities Service	Ohio Jones "A"	# 1	1980'	FNL	660'	FEL	Section 30
Phillips	U.S. Minerals	# 3	660'	FSL	660'	FEL	Section 30
Cities Service	Cockburn St. "A"	# 3	660'	FNL	1980'	FEL	Section 32

(2) That the subject waterflood project is hereby designated the Southeast Maljamar 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 the placing of additional wells, within the said unit area, on water injection as may be necessary to complete an efficient waterflood injection pattern.

(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. 3462

Order No. R-3134

(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

JACK M. CAMPBELL, Chairman

GUYTON B. HAYS, 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. 3461  
Order No. R-3130

APPLICATION OF CITIES SERVICE OIL  
COMPANY FOR APPROVAL OF THE SOUTH-  
EAST MALJAMAR GRAYBURG-SAN ANDRES  
UNIT AGREEMENT, LEA COUNTY, NEW  
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on September 28, 1966,  
at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 4th day of October, 1966, 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, Cities Service Oil Company, seeks  
approval of the Southeast Maljamar Grayburg-San Andres Unit Agree-  
ment covering 1080 acres, more or less, of State and Federal lands  
described as follows:

LEA COUNTY, NEW MEXICO  
TOWNSHIP 17 SOUTH, RANGE 33 EAST, NMPM  
Section 29: W/2, SE/4, W/2 NE/4, and  
SE/4 NE/4  
Section 30: NE/4, N/2 SE/4, and SE/4 SE/4  
Section 32: N/2 N/2 and SE/4 NE/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 Southeast Maljamar Grayburg-San Andres 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 Commissioner of Public Lands for the State of New Mexico and 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

JACK M. CAMPBELL, Chairman

GUYTON B. HAYS, Member

S E A L

esr/

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

**(MALJAMAR (PUCKETT "A" WATERFLOOD PROJECT EXPANSION) POOL - Cont'd.)**

(5) That injection into the San Andres formation should be through 2-3/8-inch tubing installed in a packer set at approximately 3600 feet and into the perforated intervals from 3635 feet to 3655 feet and from 3875 feet to 3920 feet.

(6) That injection into the Grayburg formation should be through the annulus between the 2-3/8-inch tubing and the 5-1/2-inch casing and into the perforated interval at approximately 3550 feet.

(7) That the subject application should be approved and the expanded project should be governed by the provisions of Rules 701, 702, and 703 of the Commission Rules and Regulations.

**IT IS THEREFORE ORDERED:**

(1) That the applicants, William A. and Edward R. Hudson, are hereby authorized to expand their Puckett "A" Waterflood Project in the Maljamar Pool by the injection of water into the Grayburg-San Andres formation through their Puckett "A" Well No. 30 to be drilled at an unorthodox location 1345 feet from the North line and 25 feet from the West line of Section 24, Township 17 South, Range 31 East, NMPM, Eddy County, New Mexico.

(2) That injection into the San Andres formation shall be through 2-3/8-inch tubing installed in a packer set at approximately 3600 feet and into the perforated interval from 3635 feet to 3655 feet and from 3875 feet to 3920 feet.

(3) That injection into the Grayburg formation shall be through the annulus between the 2-3/8-inch tubing and the 5-1/2-inch casing and into the perforated interval at approximately 3550 feet.

(4) That the expanded waterflood project shall be governed by the provisions of Rules 701, 702, and 703 of the Commission Rules and Regulations.

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

(6) 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 herein above designated.

**MALJAMAR (GRAYBURG-SAN ANDRES) POOL  
(Southeast Maljamar Grayburg-San Andres Unit Waterflood)  
Lea County, New Mexico**

Order No. R-3134, Authorizing Cities Service Oil Company to Institute a Waterflood Project in the Southeast Maljamar Grayburg-San Andres Unit Area, Maljamar (Grayburg-San Andres) Pool, Lea County, New Mexico, October 14, 1966.

Application of Cities Service Oil Company for  
a Waterflood Project, Lea County, New Mexico.

CASE NO. 3462  
Order No. R-3134

**ORDER OF THE COMMISSION**

**BY THE COMMISSION:** This cause came on for hearing at 9 a.m. on September 28, 1966, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 14th day of October, 1966, 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, Cities Service Oil Company, seeks permission to institute a waterflood project in the Southeast Maljamar Grayburg-San Andres Unit Area, Maljamar (Grayburg-San Andres) Pool, by the injection of water into the Grayburg-San Andres formation through eleven injection wells in Sections 29, 30, and 32, Township 17 South, Range 33 East, NMPM, Lea County, New Mexico.

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

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

**(MALJAMAR (GRAYBURG-SAN ANDRES) (SOUTHEAST  
MALJAMAR GRAYBURG-SAN ANDRES UNIT WATER-  
FLOOD) POOL - Cont'd.)**

(5) That the applicant further seeks the establishment of an administrative procedure whereby additional wells, within the said unit area, could be placed on water injection.

(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.

**IT IS THEREFORE ORDERED:**

(1) That the applicant, Cities Service Oil Company, is hereby authorized to institute a waterflood project in the Southeast Maljamar Grayburg-San Andres Unit Area, Maljamar (Grayburg-San Andres) Pool, by the injection of water into the Grayburg-San Andres formation through the following-described wells in Township 17 South, Range 33 East, NMPM, Lea County, New Mexico:

Cities Service Shell St. "A" #1  
1980' FSL 660' FWL Section 29  
Cities Service Shell St. "A" #2  
660' FSL 1980' FWL Section 29  
Cities Service Philmex St. "A" #6  
990' FNL 2310' FEL Section 29  
Cities Service Philmex St. "A" #5  
2310' FNL 990' FEL Section 29  
Phillips Philmex #3  
1980' FNL 1980' FWL Section 29  
Phillips Philmex #7  
660' FNL 660' FWL Section 29  
Shell State "A" #2  
1980' FSL 1980' FEL Section 29  
Shell State "A" #3  
660' FSL 990' FEL Section 29  
Cities Service Ohio Jones "A" #1  
1980' FNL 660' FEL Section 30  
Phillips U.S. Minerals #3  
660' FSL 660' FEL Section 30  
Cities Service Cockburn St. "A" #3  
660' FNL 1980' FEL Section 32

(2) That the subject waterflood project is hereby designated the Southeast Maljamar 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 the placing of additional wells, within the said unit area, on water injection as may be necessary to complete an efficient waterflood injection pattern.

(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.

(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 herein above designated.

**SAUNDERS-PERMO PENNSYLVANIAN POOL  
(Saunders SB Waterflood Project Expansion)  
Lea County, New Mexico**

Order No. R-3144, Authorizing Amerada Petroleum Corporation to Expand its Saunders SB Waterflood Project in the Saunders-Permo Pennsylvanian Pool, Lea County, New Mexico, November 9, 1966.

Application of Amerada Petroleum Corporation for a Waterflood Expansion, Lea County, New Mexico.

CASE NO. 3488  
Order No. R-3144

**ORDER OF THE COMMISSION**

**BY THE COMMISSION:** This cause came on for hearing at 9 a.m. on November 2, 1966, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 9th day of November, 1966, 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 jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Amerada Petroleum Corporation, seeks permission to expand its Saunders SB Waterflood Project in the Saunders Permo-Pennsylvanian Pool by the injection of water into the Permo-Pennsylvanian zone through its Texaco-State "AQ" Well No. 2, located in Unit E of Section 3, Township 15 South, Range 33 East, NMPM, Lea County, New Mexico.

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

(4) That the proposed expansion of the Saunders SB Waterflood Project should result in the recovery of otherwise unrecoverable oil, thereby preventing waste.

(5) That the subject application should be approved and the expanded project should be governed by the provisions of Rules 701, 702, and 703 of the Commission Rules and Regulations.

**IT IS THEREFORE ORDERED:**

(1) That the applicant, Amerada Petroleum Corporation, is hereby authorized to expand its Saunders SB Waterflood Project in the Saunders-Permo Pennsylvanian Pool by the injection of water into the Permo-Pennsylvanian zone through its Texaco-State "AQ" Well No. 2, located in Unit E of Section 3, Township 15 South, Range 33 East, NMPM, Lea County, New Mexico.

**YATES NORTH VACUUM (SAN ANDRES) UNIT**  
Lea County, New Mexico

Order No. R-3961, Approving the Yates North Vacuum (San Andres) Unit Agreement, Lea County, New Mexico, May 12, 1970.

Application of Yates Drilling Company for Approval of the Yates North Vacuum (San Andres) Unit Agreement, Lea County, New Mexico.

CASE NO. 4347  
Order No. R-3961

**ORDER OF THE COMMISSION**

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on April 29, 1970, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 12th day of May, 1970, 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, Yates Drilling Company, seeks approval of the Yates North Vacuum (San Andres) Unit Agreement covering 800 acres, more or less, of State lands described as follows:

LEA COUNTY, NEW MEXICO  
TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM

Section 1: S/2 SW/4  
Section 2: SW/4 NE/4, S/2 NW/4, SW/4  
W/2 SE/4, and SE/4 SE/4  
Section 11: NE/4  
Section 12: 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 Yates North Vacuum (San Andres) 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 Commissioner of Public Lands for the State of New Mexico; 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.

**CANADA OJITOS UNIT**  
(Expansion)  
Rio Arriba County, New Mexico

Order No. R-2544-A, Approving Expansion of the Canada Ojitos Unit Agreement, Rio Arriba County, New Mexico, July 15, 1970.

Application of Benson-Montin-Greer Drilling Corporation for Expansion of a Unit Area, Rio Arriba County, New Mexico.

CASE NO. 4374  
Order No. R-2544-A

**ORDER OF THE COMMISSION**

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on July 1, 1970, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 15th day of July, 1970, 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 by Order No. R-2544, dated August 9, 1963, the Commission approved the Canada Ojitos Unit Agreement containing 35,829.84 acres, more or less, of Federal and Fee lands in



**(CANADA OJITOS UNIT (EXPANSION) FIELD - Cont'd.)**

Township 25 and 26 North, Ranges 1 East and 1 West, NMPM, Rio Arriba County, New Mexico.

(3) That the applicant, Benson-Montin-Greer Drilling Corporation, seeks the expansion of said Canada Ojitos Unit Area to include 20,480 additional acres, more or less, of Federal, State and Fee lands described as follows:

RIO ARRIBA COUNTY, NEW MEXICO  
TOWNSHIP 24 NORTH, RANGE 1 WEST, NMPM  
Sections 1 through 4: All  
Section 8: E/2  
Sections 9 through 16: All  
Section 17: E/2  
Sections 23 and 24: All

TOWNSHIP 24 NORTH, RANGE 1 EAST, NMPM  
Sections 6 and 7: All  
Section 8: W/2  
Section 17: W/2  
Sections 18 and 19: All  
Section 20: W/2

TOWNSHIP 25 NORTH, RANGE 1 WEST, NMPM  
Section 36: E/2

TOWNSHIP 25 NORTH, RANGE 1 EAST, NMPM  
Section 4: W/2  
Section 5: All  
Section 8: All  
Section 9: W/2  
Section 17: All  
Section 19: E/2  
Section 20: All  
Section 29: W/2  
Sections 30 and 31: All

TOWNSHIP 26 NORTH, RANGE 1 EAST, NMPM  
Section 20: W/2  
Section 29: All  
Section 32: All  
Section 33: W/2

(4) That the proposed expansion of said Canada Ojitos Unit Agreement should promote the prevention of waste and protection of correlative rights within the unit area as expanded.

**IT IS THEREFORE ORDERED:**

(1) That the Canada Ojitos Unit Agreement, as amended to include the acreage described in Finding (3) above, is hereby approved.

(2) That the unit operator shall file with the Commission an executed original or executed counterpart of the amendment to 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.

(3) That this order shall become effective upon the approval of the aforesaid amendment to the Canada Ojitos Unit Agreement by the Commissioner of Public Lands for the State of New Mexico and 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.

(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 32-7-33 UNIT  
Roosevelt County, New Mexico

Order No. R-3990, Approving the State 32-7-33 Unit Agreement, Roosevelt County, New Mexico, July 10, 1970.

Application of Champlin Petroleum Company  
for Approval of the State 32-7-33 Unit Agreement,  
Roosevelt County, New Mexico.

CASE NO. 4377  
Order No. R-3990

**ORDER OF THE COMMISSION**

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on July 1, 1970, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 10th day of July, 1970, 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, Champlin Petroleum Company, seeks approval of the State 32-7-33 Unit Agreement covering 640 acres, more or less, of State lands described as follows:

ROOSEVELT COUNTY, NEW MEXICO  
TOWNSHIP 7 SOUTH, RANGE 33 EAST, NMPM  
Section 32: All

(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 State 32-7-33 Unit Agreement is hereby approved.

CACTUS QUEEN (VOLUNTARY) UNIT AGREEMENT EXPAN-  
SION  
Chaves County, New Mexico

Order No. R-9075-A-1, Approving the Expansion of the Cactus Queen (Voluntary) Unit Agreement, Chaves County, New Mexico, January 26, 1993.

Application of Yates Drilling Company for Expansion of a Unit Area and to Amend Division Order No. R-9075-A, Chaves County, New Mexico.

CASE NO. 10641  
Order No. R-9075-A-1

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 17, 1992, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 26th day of January, 1993 the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) At the time of the hearing, this case was consolidated with Division Case No. 10642 for the purpose of testimony.

(3) By Division Order No. R-9075-A, issued in Case No. 9823 and dated December 14, 1989, the Division approved the Yates Drilling Company Cactus Queen (Voluntary) Unit Agreement for the purpose of establishing a secondary recovery project in the Queen formation underlying the NE/4 SW/4, S/2 SW/4 and W/2 SE/4 of Section 27 and the NW/4 NE/4 and N/2 NW/4 of Section 34, Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico.

(4) The applicant, Yates Drilling Company, now seeks to expand said Cactus Queen (Voluntary) Unit Area by including therein an additional 320 acres, more or less, of Federal lands comprising the SW/4 NE/4, S/2 NW/4, SW/4, and NW/4 SE/4 of said Section 34. Said expanded unit would be comprised of the NE/4 SW/4, S/2 SW/4, and W/2 SE/4 of said Section 27 and the W/2 NE/4, W/2 and NW/4 SE/4 of said Section 34, containing 640 acres, more or less, of state (120 acres or 18.75%) and federal (520 acres or 81.25%) lands.

(5) The applicant's Exhibit Nos. 3 and 4 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this order.

(6) The proposed expansion will prevent waste and protect correlative rights, will tend to conserve oil and gas and should be approved.

(7) The terms and conditions of Division Order No. R-9075-A should apply to the expanded unit to the extent not inconsistent with this order.

IT IS THEREFORE ORDERED THAT:

(1) The Yates Drilling Company's Cactus Queen (Voluntary) Unit Agreement and Area as approved by Division Order No. R-9075-A is hereby expanded to include several tracts of federal lands, comprising 320 acres, more or less, and consisting of the SW/4 NE/4, S/2 NW/4, SW/4, and NW/4 SE/4 of Section 34, Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico, so that the unit area, as expanded, will contain 640 acres, more or less, of state (120 acres or 18.75%) and federal (520 acres or 81.25%) lands and comprise the NE/4 SW/4, S/2 SW/4 and W/2 SE/4 of Section 27 and the W/2 NE/4, W/2 and NW/4 SE/4 of Section 34, all in Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico.

(2) The expanded unit and unit area shall be subject to the terms and requirements contained in Order No. R-9075-A and shall become effective as provided in the unit agreement.

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

## (CATCLAW DRAW UNIT - Cont'd.)

(2) That the applicant, Hanagan Petroleum Corporation, seeks approval of the Catclaw Draw Unit Agreement covering 6720 acres, more or less, of State, Federal and fee lands described as follows:

EDDY COUNTY, NEW MEXICO  
TOWNSHIP 21 SOUTH, RANGE 25 EAST, NMPM  
Section 13: S/2  
Section 14: S/2  
Section 15: S/2  
Sections 22 through 27: All  
Sections 34 through 36: All

(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 Catclaw Draw 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 and 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 Commissioner of Public Lands for the State of New Mexico and 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.

FLYING "M" SAN ANDRES UNIT  
(Expansion)  
Lea County, New Mexico

Order No. R-3220-A, Approving the Expansion of the Flying "M" San Andres Unit, Lea County, New Mexico, January 15, 1971.

Application of Coastal States Gas Producing Company for Expansion of a Unit Area, Lea County, New Mexico.

CASE NO. 4480  
Order No. R-3220-A

## ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on January 6, 1971, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 15th day of January, 1971, 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 by Order No. R-3220, dated April 26, 1967, the Commission approved the Flying "M" San Andres Unit Agreement covering 4080 acres, more or less, of State, Federal, and Fee lands described as follows:

LEA COUNTY, NEW MEXICO  
TOWNSHIP 9 SOUTH, RANGE 33 EAST, NMPM  
Section 15: W/2 W/2  
Section 16: All  
Section 17: All  
Section 20: E/2 and E/2 NW/4  
Section 21: All  
Section 22: W/2 W/2  
Section 27: W/2 NW/4  
Section 28: N/2, SW/4, and W/2 SE/4  
Section 29: E/2 and E/2 W/2  
Section 32: NE/4 and E/2 NW/4  
Section 33: W/2 NW/4

(3) That said unit was subsequently expanded on October 30, 1967, to include therein the following-described lands

(FLYING "M" SAN ANDRES (EXPANSION) UNIT - Cont'd.)

LEA COUNTY, NEW MEXICO  
TOWNSHIP 9 SOUTH, RANGE 33 EAST, NMPM  
Section 27: W/2 SW/4  
Section 28: E/2 SE/4

(4) That the applicant, Coastal States Gas Producing Company, now seeks the expansion of said Flying "M" San Andres Unit Area to include 879.48 additional acres, more or less, of Federal, State, and Fee lands described as follows:

LEA COUNTY, NEW MEXICO  
TOWNSHIP 9 SOUTH, RANGE 33 EAST, NMPM  
Section 29: W/2 W/2  
Section 32: W/2 NW/4  
Section 33: NE/4, E/2 NW/4, and SE/4  
Section 34: W/2 NW/4

TOWNSHIP 10 SOUTH, RANGE 33 EAST, NMPM  
Section 4: NE/4

(5) That the proposed expansion of said Flying "M" San Andres Unit Area should promote the prevention of waste and protection of correlative rights within the unit area as expanded.

## IT IS THEREFORE ORDERED:

(1) That the Flying "M" San Andres Unit Agreement, as amended to include the acreage described in Finding (4), above, is hereby approved.

(2) That the plan contained in said unit agreement, as amended, 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, as amended, 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 amendment to 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 the aforesaid amendment to the Flying "M" San Andres Unit Agreement by the Commissioner of Public Lands for the State of New Mexico and 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.

KEMNITZ-LOWER WOLFCAMP EAST UNIT  
Lea County, New Mexico

Order No. R-4088, Approving the Kemnitz-Lower Wolfcamp East Unit Agreement, Lea County, New Mexico, January 15, 1971.

Application of Pubco Petroleum Corporation for Approval of the Kemnitz-Lower Wolfcamp East Unit Agreement, Lea County, New Mexico.

CASE NO. 4483  
Order No. R-4088

## ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on January 6, 1971, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 15th day of January, 1971, 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, Pubco Petroleum Corporation, seeks approval of the Kemnitz-Lower Wolfcamp East Unit Agreement covering 400 acres, more or less, of State lands described as follows:

LEA COUNTY, NEW MEXICO  
TOWNSHIP 16 SOUTH, RANGE 34 EAST, NMPM  
Section 22: SW/4 and W/2 SE/4  
Section 27: E/2 NW/4  
Section 28: E/2 NE/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 Kemnitz-Lower Wolfcamp East 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.

## (PLAYAS VALLEY UNIT AGREEMENT - Cont'd.)

## IT IS THEREFORE ORDERED THAT:

(1) The Playas Valley Unit Agreement is hereby approved for all oil and gas in any and all formations underlying 6120 acres, more or less, of the following described State lands in Hidalgo County, New Mexico:

TOWNSHIP 26 SOUTH, RANGE 17 WEST, NMPM

Section 34: SW/4

Section 35: E/2

TOWNSHIP 27 SOUTH, RANGE 17 WEST, NMPM

Section 1: ALL

Section 2: N/2

Section 3: N/2

Section 4: All

Section 5: E/2 SE/4

Section 8: NE/4 NE/4 and S/2 NE/4

Section 9: N/2

Sections 12 and 13: All

Sections 23 through 25: All

(2) The NE/4 of Section 34, Township 26 South, Range 17 West, NMPM, Hidalgo County, New Mexico, which was originally requested to be part of the subject unit, shall be omitted at this time for lack of contiguity.

(3) 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, notwithstanding any of the provisions contained in said unit agreement, the 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 Division to supervise and control operations for the unit and production of oil and gas therefrom.

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

(5) All plans of development and operation, all unit participating areas and expansions or contractions of the unit area, shall be submitted to the Director of the Oil Conservation Division for approval.

(6) This order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico; this order shall terminate ipso facto upon the termination of said unit agreement; and the last unit operator shall notify the Division immediately in writing of such termination.

(7) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

## HALEY CHAVEROO SAN ANDRES UNIT

(Expansion)

Chaves County, New Mexico

Order No. R-8750-A, Approving Expansion of the Haley Chaveroo-San Andres Unit, Chaves County, New Mexico, March 14, 1989.

Application of Murphy Operating Corporation for Expansion of Unit Area, Chaves and Roosevelt Counties, New Mexico.

CASE NO. 9589  
Order No. R-8750-A

## ORDER OF THE DIVISION

BY THE DIVISION: This cause came on for hearing at 8:15 a.m. on March 1, 1989, at Santa Fe, New Mexico, before Examiner Victor T. Lyon.

NOW, on this 14th day of March, 1989, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

## FINDS THAT:

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

(2) At the time of the hearing, Cases 9589 and 9590 were consolidated for purposes of testimony.

(3) The applicant, Murphy Operating Corporation, desires to expand the Haley Chaveroo-San Andres Unit Area as approved by Division Order No. R-8750 by including therein Tract 5 consisting of the NE/4 SE/4 and SW/4 SW/4 of Section 3, Township 8 South, Range 33 East, Chaves County, New Mexico, so that the expanded unit would be comprised of all of Sections 33 and 34, Township 7 South, Range 33 East, Roosevelt County, and all of Section 3, Township 8 South, Range 33 East, Chaves County, New Mexico.

(4) Applicant provided notice to all owners in the present unit and has severed joinders to the unit agreement and unit operating agreement by all owners in the tract being added and consent of all owners in the original unit area as provided in Section 4 of the unit agreement.

(5) The area comprising the original unit area as well as the lands being added are State lands.

(6) Preliminary approval of the expansion of the unit area has been given by the Director, Oil and Gas Division of the Office of the Commissioner of Public Lands.

**(HALEY CHAVEROO SAN ANDRES (EXPANSION) UNIT -  
Cont'd.)**

(7) The proposed expansion will prevent waste and protect correlative rights, will tend to conserve oil and gas and should be approved.

(8) The terms of Division Order No. R-8750 should apply to the expanded unit to the extent not inconsistent with this order.

**IT IS THEREFORE ORDERED THAT:**

(1) The Haley Chaveroo-San Andres Unit Area as approved by Division Order No. R-8750 is hereby expanded to include Tract No. 5 consisting of the NE/4 SE/4 and SW/4 SW/4 of Section 3, Township 8 South, Range 33 East, NMPM, Chaves County, New Mexico, so that the unit area, as expanded, will be comprised of all of Sections 33 and 34, Township 7 South, Range 33 East, Roosevelt County, New Mexico and all of Section 3, Township 8 South, Range 33 East, Chaves County, New Mexico.

(2) The expanded unit and unit area shall be subject to the terms and requirements contained in Order No. R-8750 and shall become effective as provided in the unit agreement.

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

**PRETTY BIRD UNIT**  
Chaves County, New Mexico

Order No. R-8894, Approving the Pretty Bird Unit Agreement, Chaves County, New Mexico, March 22, 1989.

Application of Texmex Seven, Ltd. for a Unit Agreement, Chaves County, New Mexico.

CASE NO. 9620  
Order No. R-8894

**ORDER OF THE DIVISION**

**BY THE DIVISION:** This cause came for hearing at 8:15 a.m. on March 15, 1989, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 22nd day of March, 1989, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

**FINDS THAT:**

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

(2) The applicant, Texmex Seven Ltd., seeks approval of the Pretty Bird Unit Agreement for all oil and gas in any and all formations underlying those lands described in Exhibit "A" attached hereto and made a part hereof.

(3) No interested party appeared and objected to the proposed unit area.

(4) All plans of development and operation, and creations, expansions or contractions of participating areas, or expansions or contractions of the unit area should be submitted to the Director of the Division for approval.

(5) Approval of the proposed unit agreement should promote the prevention of waste and protection of correlative rights within the unit area.

**IT IS THEREFORE ORDERED THAT:**

(1) The Pretty Bird Unit Agreement is hereby approved for all oil and gas in any and all formations underlying those lands described in Exhibit "A" attached hereto and made a part hereof.

(2) 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, 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 Division to supervise and control operations for the unit and production of oil and gas therefrom.

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

(4) All plans of development and operation, all unit participating areas and expansions or contractions of the unit area, shall be submitted to the Director of the Oil Conservation Division for approval.

(5) This order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the appropriate agency of the United States Department of the Interior; this order shall terminate upon the termination of said unit agreement; and the last unit operator shall notify the Division immediately in writing of such termination.

(6) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

**EXHIBIT "A"**  
CASE NO. 9620  
ORDER NO. R-8894  
PRETTY BIRD UNIT AREA

TOWNSHIP 18 SOUTH, RANGE 17 EAST, NMPM  
Sections 26 and 26: All  
Sections 35 and 36: All

TOWNSHIP 18 SOUTH, RANGE 18 EAST, NMPM  
Sections 31 and 32: All

TOWNSHIP 19 SOUTH, RANGE 17 EAST, NMPM  
Section 1: All  
Sections 12 and 13: All

TOWNSHIP 19 SOUTH, RANGE 18 EAST, NMPM  
Sections 4 through 9: All  
Sections 16 through 18: All  
Section 19: N/2

containing 11,782.54 acres, more or less, of State and Federal Lands in Chaves County, New Mexico.

**UNIT OPERATING AGREEMENT**

**SOUTHEAST MALJAMAR GRAYBURG-SAN ANDRES UNIT**

**MALJAMAR FIELD**

**Lea County, New Mexico**

UNIT OPERATING AGREEMENT

SOUTHEAST MALJAMAR UNIT

LEA COUNTY, NEW MEXICO



UNIT OPERATING AGREEMENT  
SOUTHEAST MALJAMAR GRAYBURG - SAN ANDRES UNIT  
MALJAMAR FIELD  
LEA COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT

SOUTHEAST MALJAMAR GRAYBURG - SAN ANDRES UNIT

MALJAMAR FIELD

LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 2nd day of May, 1966, by and between the parties who execute or ratify this Agreement.

WITNESSETH:

WHEREAS, The parties hereto, as Working Interest Owners, have executed, as of the date hereof, that certain Unit Agreement for the development and operation of the Southeast Maljamar Grayburg-San Andres Unit of the Maljamar Field, Lea County, New Mexico, hereinafter referred to as "Unit Agreement", and which, among other things, provides for a separate Agreement to be made and entered into by and between Working Interest Owners pertaining to the development and operation of the Unit Area therein defined.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and incorporated herein by reference and made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. In the event of any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall prevail.

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein by reference.

2.1.1 Exhibits "A", "B", and "C" of the Unit Agreement are incorporated herein as Exhibits "A", "B", and "C" of this Agreement.

2.1.2 Exhibit "D" attached hereto, details the total percentage of participation of each of the Working Interest Owners herein.

2.1.3 Exhibit "E" attached hereto, is the Accounting Procedure applicable to development and operation of the Unit Area. In the event of conflict between this Agreement and Exhibit "E", this Agreement shall prevail.

2.1.4 Exhibit "F" attached hereto, contains insurance provisions applicable to the development and operation of the Unit Area.

### ARTICLE 3

#### SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to the development and operation of the Unit Area pursuant to this Agreement and the Unit Agreement. In the exercise of such power, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Particular Powers and Duties. The matters to be passed upon and decided by Working Interest Owners shall include, but not be limited to, the following:

3.2.1 Method of Operation. The kind, character, and method of operation, including any type of pressure maintenance, secondary recovery, or other recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well within the Unit Area either for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Workovers and Change of Status. The workover, recompletion, repair, abandonment, or change of status of any well in the Unit Area or the use of any well for injection or other purposes.

3.2.4 Expenditures. Making of an expenditure on any single project in excess of Ten Thousand Dollars (\$10,000.00); provided that approval by Working Interest Owners of the drilling, reworking, drilling deeper, or plugging back of any well shall include approval of all necessary expenditures required therefor and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus unit equipment, if the current list price of new equipment similar thereto is Fifteen Hundred Dollars (\$1,500.00) or more.

3.2.6 Appearance Before a Court or Regulatory Body. The designating of a representative to appear before any court or regulatory body in matters pertaining to Unit Operations; provided, however, that the authorization by Working Interest Owners of the designation of any such representatives shall not prevent any Working Interest Owner at its own expense from appearing in person or from designating another representative on its own behalf.

3.2.7 Audits. The making of proper audits of the accounts of Unit Operator pertaining to operations hereunder; provided that such audits shall:

(a) not be conducted more than once each year or upon the resignation or removal of Unit Operators;

(b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator provided that if the Unit Operator requests an audit be conducted, the Unit Operator shall share in the cost of such audit.

(c) be made upon not less than thirty (30) days' written notice to the Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit "E".

3.2.9 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit "E".

3.2.10 Assignment to Committees. The appointment or designation of the purposes of committees or subcommittees necessary for the study of any problem in connection with Unit Operations.

3.2.11 The removal of Unit Operator and the selection of a successor.

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement..

## ARTICLE 4

### MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall advise Unit Operator in writing the names and addresses of its representative and alternate who are authorized to represent and bind it with respect to Unit Operations. Such representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to Unit Operations shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total participating interest of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' written notice, with agenda for the meeting attached. The Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding such amended items included in the agenda or from deciding such amended item or from deciding other items presented at such meeting. The representative of Unit Operator shall be Chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall act upon and determine all matters coming before them as follows:

4.3.1 Voting Interest. In voting on any matters each Working Interest Owner shall have a voting interest equal to its Phase II Unit Participati

4.3.2 Vote Required - Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of at least one (1) Working Interest Owner owning sixty-five percent (65%) or more voting interest; provided that, should any one Working Interest Owner have more than thirty-five percent (35%) voting interest, its negative vote, or failure to vote, shall not serve to defeat a motion, and such motion shall pass if approved by a majority interest unless such negative voting or non-voting Working Interest Owner is supported by the vote of one (1) or more Working Interest Owners having a combined voting interest of at least five-percent (5%).

4.3.3 Vote at Meeting by Non-Attending Working Interest Owners. Any Working Interest Owner not represented at a meeting may vote by letter or

telegram addressed to the Chairman of the meeting, provided such vote is received prior to the submission of such item to vote. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners, if no meeting is requested, as provided in Section 4.2, within seven (7) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of the voting to all Working Interest Owners.

## ARTICLE 5

### INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, power, authority, and privileges, except as otherwise expressly provided in this Agreement and the Unit Agreement.

5.2 Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights and privileges:

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect the operations hereunder and all wells and records and data pertaining thereto.

5.2.2 Reports by Request. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other data pertaining to Unit Operations. The cost of gathering and furnishing data not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged solely to Working Interest Owners requesting the same.

## ARTICLE 6

### UNIT OPERATOR

6.1 Initial Unit Operator. Cities Service Oil Company is hereby designated as Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time. Working Interest Owners may remove Unit Operator by the affirmative vote of at

least two (2) Working Interest Owners owning at least seventy-five (75) percent of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator who resigns or is removed shall not be released from its obligations hereunder for a period of six (6) months after its resignation or discharge unless a successor Unit Operator shall have taken over the operations hereunder prior to the expiration of said period.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners, as provided in Article 8 of the Unit Agreement.

## ARTICLE 7

### POWERS AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this Agreement and to the order, directions, and limitations rightfully given or imposed by Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner and, in the absence of specific instructions from Working Interest Owners, shall have the right and duty to conduct such operations in the same manner as would a prudent Operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them advised of all matters arising in connection with such operations which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages unless such damages result from the gross negligence or willful misconduct of Unit Operator.

7.3 Liens and Encumbrances. Unit Operator shall keep the lands and leases in the Unit Area free from all liens and encumbrances occasioned by Unit Operations, except the lien of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep true and correct books, accounts, and records of Unit Operations.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations.

7.7 Reports to Governmental Authorities. Unit Operator shall make all reports to Governmental authorities that it has the duty to make as Unit Operator.

7.8 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of the log and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Ten Thousand Dollars (\$10,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

7.11 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Twenty-Five Hundred Dollars (\$2,500.00) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest



Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

## ARTICLE 8

### TAXES

8.1 Ad Valorem Taxes. Unit Operator shall, beginning in the first calendar year, make and file for ad valorem tax purposes all necessary renditions and returns with the proper taxing authorities or governmental subdivisions covering all real and personal property of each Working Interest Owner within the Unit Area and used in connection with the development and operation of the Unit Area. Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, to protest and resist the same. All such ad valorem taxes due and payable on account of real and personal property of each Working Interest Owner located within the Unit Area and used in connection with Unit Operations shall be paid by Unit Operator for the joint account in the same manner as other costs and expenses of Unit Operations; providing, however, any Working Interest Owner having an overriding royalty, oil payment, or similar burden on his interest in excess of the basic  $1/8$  royalty in any Tract shall be given credit on his assessment for the amount of assessment chargeable to such overriding royalty, oil payment, or similar burden. In order to comply with the foregoing provision, each Working Interest Owner shall notify Unit Operator of such overriding royalty, oil payment, or similar burden.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes and assessments imposed upon or on account of the production or handling of its share of Unit Production.

## ARTICLE 9

### INSURANCE

9.1 Insurance. Unit Operator shall carry, with respect to Unit Operations subject to this Agreement.

9.1.1 Workmen's Compensation and Employer's Liability Insurance as required by the laws of the State of New Mexico.

9.1.2 Such other insurance as set forth in Exhibit "F".

## ARTICLE 10

### ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the effective date hereof, Working Interest Owners shall deliver to Unit Operator possession of the following:

10.1.1 Wells and Casing. All wells completed in the Unitized Formation, together with the casing therein and casing fittings through the casinghead.

10.1.2 Well and Lease Equipment. The tubing in each such well, together with the wellhead connections thereon, and all other lease and operating equipment used in the operations of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operation.

10.1.3 Records. A copy of all production and well records pertaining to such wells.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall, at Unit Expense, inventory controllable material as defined in the PASC Material Classification Manual (Revised 1960), except that certain items normally considered non-controllable, such as sucker rods, and other items as agreed upon the Working Interest Owners, may be included on the inventories in order to insure a more equitable adjustment of investments, and evaluate the inventoried properties at an appraised value as determined by Working Interest Owners except that casing shall be given no value.

10.3 Investment Adjustment. Upon approval of Working Interest Owners of such inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property, except well casing, so

taken over by Unit Operator under Section 10.1.2, and charged with an amount equal to that obtained by multiplying the total value of all such personal property except well casing, so taken over by Unit Operator under Section 10.1.2 by such Working Interest Owner's Phase II Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 General Facilities. The acquisition of warehouses, warehouse stock, lease houses, camps, facility systems, and office buildings necessary for operations hereunder shall be by negotiation by and between the owners thereof and Unit Operator, subject to the approval of the Working Interest Owners.

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement and equal to its Phase II Unit Participation.

10.6 Adjustment for Non-Usable Wells. All wells delivered to the Unit Operator shall be in usable, physical condition to produce from the Unitized Formation on the effective date. If any such well is determined by the Working Interest Owners to be in non-usable, physical condition, the cost of placing such well in usable, physical condition shall be charged to the Working Interest Owners owning such well immediately prior to the effective date; provided that, any amount in excess of Sixty Thousand Dollars (\$60,000.00) will be charged to all Working Interest Owners. All charges shall in all respects be treated as any other item of Unit Expense.

## ARTICLE 11

### DEVELOPMENT AND OPERATING COSTS

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reim-

burse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share of Unit Expense shall be same as its Unit Participation during the phase in which such expense is incurred. It is specifically agreed that all charges relating to drilling of additional wells, to conversion of wells for injection purposes, enlargement of lift equipment, and construction of waterflood plant and waterflood plant facilities shall be based on Phase II Unit Participation. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "E".

11.2 Budgets. Before, or as soon as practical, after the effective date hereof, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and on or before the first day of each October thereafter, shall prepare such a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall promptly be furnished to each Working Interest Owner.

11.3 Advance Billing. Unit Operator shall have the right at its option to require Working Interest Owners to advance their respective proportions of such estimated costs and expenses by submitting to Working Interest Owners, on or before the fifteenth day of any month, an itemized estimate of such costs and expenses for the succeeding month, with a request for payment in advance. Within fifteen (15) days after receipt thereof, each Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustments between estimated and the actual costs and expenses shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. No funds received by Unit Operator under this Agreement need be segregated by Unit Operator or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas rights in each Tract, its share of Unit Production when produced, and its interest in all Unit Equipment, as

security for payment of its share of Unit Costs and Expenses, together with interest thereon at the rate of eight percent (8%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unit Production until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. The Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by the Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall be subrogated to the lien and rights herein granted Unit Operator.

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual royalty interest payments with respect to such tract are more or less than the royalty interest payments computed on the basis of the Unitized Substance that are allocated to such tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of the Working Interest Owners in proportion to their respective Unit Participation; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-eighth ( $1/8$ ) of the difference between the Unitized Substances allocated to the tract and the Unitized Substances produced from the tract. Such adjustment shall be made by charges and credits to the joint account.

11.8 Rentals. The Working Interest Owner in each tract shall at its

own expense, pay any and all rentals required to continue its lease in force as to such tract and upon request of Unit Operator, each such Working Interest Owner shall furnish Unit Operator satisfactory evidence as to the payment of each such rental not less than thirty (30) days prior to the rental payment date. Unit Operator shall have the right, but shall be under no obligation whatever, to pay any and all such rentals on behalf of each such Working Interest Owner and any and all rentals so paid by Unit Operator shall be charged solely to the account of such Working Interest Owner. In the event the Working Interest Owner in any tract fails to pay any rental required to continue its lease in force as to such tract, the termination of said lease as to such tract shall be considered for all purposes of this agreement and the Unit Agreement to be a failure of title to said lease for reasons other than Unit Operations.

## ARTICLE 12

### OPERATION OF NON-UNITIZED FORMATIONS

12.1 Right to Operate in Non-Unitized Formations. Any Working Interest Owner now having, or hereafter acquiring, the right to drill for and produce oil, gas, or other minerals from other than the Unitized Formation shall have the full right to do so notwithstanding this agreement or the Unit Agreement. In exercising said right, however, such Working Interest Owner shall exercise every reasonable precaution to prevent unreasonable interference with operations hereunder. No Working Interest Owner shall produce Unitized Substances through any such well drilled or operated by it. If any Working Interest Owner drills any such well into or through the Unitized Formation, the Unitized Formation shall be cased or otherwise protected in such a manner satisfactory to Working Interest Owners so that the Unitized Formation and the production of Unitized Substances will not be adversely affected. After the effective date hereof, no wells shall be dually completed in the Unit Area to permit production of oil from the Unitized Formation and another formation or formations within the same well bore, without the consent of all Working Interest Owners.

## ARTICLE 13

### TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents

and warrants that it is the owner of the respective working interest set forth opposite its name in Exhibit "D", and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of operations hereunder; provided, however, that such indemnity shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unit Production attributed hereunder to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of the first day of the calendar month in which such failure is finally determined and there shall be no retroactive adjustment of development and operating expenses, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

13.2 Failure Because of Unit Operations. The failure of title to any working interest in any tract by reason of Unit Operations, including nonproduction from such tract, shall be treated as a joint loss of title by all Working Interest Owners and be shared in proportion to their respective Unit Participation Percentages and there shall be no re-adjustment in Working Interest Owners Unit Participation by reason of such failure.

#### ARTICLE 14

##### LIABILITY, CLAIMS AND SUITS

14.1 Individual Liability. The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing contained herein shall ever be construed as creating a partnership of any kind, joint venture, or an association or trust between or among Working Interest Owners.

#### ARTICLE 15

##### INTERNAL REVENUE PROVISIONS

15.1 Internal Revenue Provisions: Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this Agreement and the operations hereunder shall not constitute a partnership, if for Federal Income Tax purposes this Agreement and

the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of said Code and the regulation promulgated thereunder. Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1 (a). Should there be any requirement that each party hereto further evidence this election each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the property covered by this Agreement is located, or any future income tax law of the United States, contain, or shall thereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election, each of the parties hereto hereby states that the income derived by him from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

## ARTICLE 16

### NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4 hereof.



## ARTICLE 17

### WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. No Working Interest Owner shall release or surrender any interest subject hereto. Each Working Interest Owner desiring to withdraw from this Agreement and the Unit Agreement, shall notify all other Working Interest Owners in writing of such Working Interest Owner's election to withdraw, and each Working Interest Owner shall, within fifteen (15) days, elect and notify in writing the Working Interest Owner desiring to withdraw whether it will succeed to the interest of the Working Interest Owner giving notice of its desire to withdraw. If one (1) or more Working Interest Owners desire to succeed to such interest, the Working Interest Owner desiring to withdraw shall assign such interest to those Working Interest Owners desiring to succeed thereto in the proportion that their respective Phase II Unit Participation bears to the aggregate of the Phase II Unit Participation of all Working Interest Owners desiring to succeed thereto, and Unit Operator shall, upon receipt of a certified copy of the instrument making such assignment, revise Exhibit "D" accordingly; provided, that upon delivery of said transfer, assignment or conveyance, the assignees, in the ratio of the respective interests so acquired, shall pay to the assignor for its interest in all jointly owned equipment, casing, and other personal property the fair salvage value thereof as estimated and fixed by Working Interest Owners in accordance with Exhibit "E". After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

## ARTICLE 18

### ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the Working Interest Owners of the tract on which such well is located and said Working Interest Owners shall have the right and option for a period of ninety (90) days after

the receipt of such notice to notify Unit Operator of their election to take over and own said well and to deepen or plug back said well to a formation other than the Unitized Formation. Within ten (10) days after said Working Interest Owners have notified Unit Operator of their desire to take over such well, they shall pay to Unit Operator, for credit to the joint account of the Working Interest Owners, the amount as estimated and fixed by Working Interest Owners to be the net salvage value of the equipment in and on said well excluding casing. At the same time the Working Interest Owners taking over the well shall agree by letter addressed to Unit Operator to effectively seal off and protect the Unitized Formation, and at such time as the well is ready for abandonment, to plug and abandon the well in a workmanlike manner in accordance with applicable laws.

18.2 Plugging. In the event the Working Interest Owners of a Tract do not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in accordance with applicable laws and regulations, and the joint account of the Working Interest Owners credited with any net salvage realized.

## ARTICLE 19

### EFFECTIVE DATE AND TERM

19.1 Effective Date. This Agreement shall become effective on the date and at the time Unit Agreement becomes effective.

19.2 Term. This Agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect and thereafter until all Unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 20 hereof, and all personal and real property acquired for the joint account of Working Interest Owners has been disposed of by Unit Operator in accordance with instructions of Working Interest Owners and there has been a final accounting.

## ARTICLE 20

### ABANDONMENT OF OPERATIONS

20.1 Termination. Upon termination of the Unit Agreement, the following will occur:

20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate tracts.

20.1.2 Right to Operate. Working Interest Owners of any such Tract desiring to take over and continue to operate a well or wells located thereon may do so by paying Unit Operator, for the credit to the joint account, the net salvage value of equipment excluding casing in and on the well and by agreeing to properly plug the well at such time as it is abandoned.

20.1.3 Salvaging Wells. With respect to all wells not taken over by Working Interest Owners, Unit Operator shall at the joint expense of Working Interest Owners salvage as much of the casing and equipment in or on such wells as can economically and reasonably be salvaged and shall cause the same to be properly plugged and abandoned.

20.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation, or other distribution of assets and properties used in the development and operation of the Unit Area in proportion to their respective Phase II Unit Participation.

## ARTICLE 21

### COUNTERPART EXECUTION

21.1 Execution by Separate Counterparts or Ratifications. This Agreement may be executed in any number of counterparts and each counterpart so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument; or may be ratified by a separate instrument in writing referring to this Agreement. Each such ratification shall have the force and effect of an executed counterpart and of adopting by reference all of the provisions hereof.

21.2 Recording. For recording purposes, in the office of the Register of Deeds of Lea County, State of New Mexico, or in any other governmental office wherein recording is required, Unit Operator is authorized to include in one copy the signature sheets of all signed counterparts.

ARTICLE 22

GENERAL

22.1 Federal Power Commission. This Agreement shall not be construed to provide that any party is obligated to represent any other party hereto before the Federal Power Commission.

22.2 Successors and Assigns. The term and provisions hereof shall be covenants running with the lands and unitized leases covered hereby and shall be binding upon and inure to the benefit of the respective heirs, successors, and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

ATTEST:

\_\_\_\_\_  
Atty. Secretary

CITIES SERVICE OIL COMPANY

By *A. L. [Signature]*  
Vice President  
Date AUG 12 1966

ATTEST:

\_\_\_\_\_

PHILLIPS PETROLEUM COMPANY

By \_\_\_\_\_  
Date \_\_\_\_\_

ATTEST:

\_\_\_\_\_

SHELL OIL COMPANY

By \_\_\_\_\_  
Date \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_, to me known to be the person described in and who executed the foregoing instrument, and acknowledges that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My Commission Expires: \_\_\_\_\_

Notary Public.

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_, to me known to be the person described in and who executed the foregoing instrument, and acknowledges that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My Commission Expires: \_\_\_\_\_

Notary Public

STATE OF Oklahoma )  
COUNTY OF Adair ) SS

On this the 12 day of August, 1956, personally appeared P. H. Tucker, to me personally known, who being by me duly sworn did say that he is the Pres President of CHAS. TUCKER CO. COMPANY and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said P. H. Tucker acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My Commission Expires: \_\_\_\_\_

John A. Nelson  
Notary Public

EXHIBIT "D"  
SOUTHEAST MALJANAR UNIT  
LEA COUNTY, NEW MEXICO

UNIT PARTICIPATION

<u>Working Interest Owner</u>	<u>Tract</u>	<u>Interest in Tract</u>	<u>Percent Participation</u>	
			<u>Phase I</u>	<u>Phase II</u>
Cities Service Oil Company	2	100.000000%	1.50675	2.610205
	3	100.000000%	2.46955	3.882765
	5	51.182472%	1.10559	1.441142
	6	100.000000%	15.76515	24.030305
	8	100.000000%	6.20170	7.699665
	9	100.000000%	24.42975	9.136770
	10	100.000000%	<u>2.40305</u>	<u>2.381620</u>
TOTAL			53.88154	51.182472
Phillips Petroleum Company	1	100.000000%	17.53425	13.101025
	4	100.000000%	3.26420	5.946690
	5	24.744443%	<u>0.53451</u>	<u>0.696728</u>
TOTAL			21.33296	24.744443
Shell Oil Company	5	24.073085%	0.52000	0.677825
	7	100.000000%	<u>24.26550</u>	<u>23.395260</u>
TOTAL			24.78550	24.073085
UNIT TOTAL			100.00000%	100.000000%

EXHIBIT "A"

Attached to and made a part of Unit Operating Agreement,  
Southcoast Oilfield, Grayson  
County,  
Lea County,

See Amendment to Operating Agreement  
effective January 1, 1973.

ACCOUNTING  
(JOINT)

I. GENERAL

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this "Accounting Procedure" is attached.  
"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.  
"Operator" shall mean the party designated to conduct the Joint Operations.  
"Non-Operators" shall mean the nonoperating parties, whether one or more.  
"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.  
"Parties" shall mean Operator and Non-Operators.  
"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.  
"Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

Where an agreement or other action of Non-Operators is expressly required under this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the agreement or action of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:

- Statement in detail of all charges and credits to the Joint Account.
- Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.
- Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of ~~eight per cent (8%)~~ per annum until paid.

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators to protest or question the correctness thereof; provided however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of the Joint Property as provided for in Section VII.

7. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided however, the making of an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

- Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, excluding, however, engineers, geologists and other technical employees, whether employed by Operator or a contractor.
- Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
- Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. Fixed Rates

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, at the following fixed per well rates:

TABLE 1. FIXED PER WELL RATES

Well Depth	Drilling and Rig		Production	
	Per Day	Per Hour	Per Day	Per Hour
0 - 400'	\$975	\$40	\$800	\$33
400 - 800'				
800 - 1200'				
1200 - 1600'				
1600 - 2000'				
2000 - 2400'				
2400 - 2800'				
2800 - 3200'				
3200 - 3600'				
3600 - 4000'				

Said fixed rate (shall) (shall not) include salaries and expenses of production foreman.

5. Application of Administrative Overhead or Combined Fixed Rates

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

- Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
  - The status of wells shall be as follows:
    - Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
    - Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
    - Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
    - Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be counted in determining the charges hereunder for such month if said wells contribute allowable production that is actually produced during such month from one or more other Unit wells as a result of allowable transfer, inclusion in a unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during such month.
    - Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
    - Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
  - The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
  - The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.
6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:
- Total cost less than \$25,000, no charge.
  - Total cost more than \$25,000 but less than \$100,000, 3 % of total cost.
  - Total cost of \$100,000 or more, 3 % of the first \$100,000 plus 2 % of all over \$100,000 of total cost.
- Total cost shall mean the total gross cost of any one project. For the purpose of this Paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.
7. The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto in, in practice, the rates are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

- Purchases  
Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.
- Material furnished from Operator's Warehouse or Other Properties
  - New Material (Condition "A")
    - Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equal, hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
    - Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
    - The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.
  - Used Material (Condition "B" and "C")
    - Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
    - Material which cannot be classified as Condition "B" but which,
      - After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
      - Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
    - Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for



- Material is not readily obtainable or is so priced in Paragraphs 1 and 2 of this Section IV because of unusual circumstances, strikes or other unusual causes over which the Operator has no control, the Operator shall charge the Joint Account for the required material at an Operator's actual cost incurred in procuring such material in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing be furnished to Non-Operators of the price charged prior to billing Non-Operators for such material. Each Non-Operator shall have the right, by so electing and notifying Operator within 15 days after receiving notice from Operator, to furnish all or part of his share of such material suitable for use and acceptable to Operator.
4. **Warranty of Material Furnished by Operator**  
Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.
  5. **Equipment and Facilities Furnished by Operator**
    - A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing performed by outside service laboratories. Rates for tractors and well service units may include wages and expenses of operator.
    - B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.
    - C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

#### V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the Joint Property.

1. **Material Purchased by the Operator or Non-Operators**  
Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.
2. **Division in Kind**  
Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.
3. **Sales to Outsiders**  
Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

#### VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. **New Price Defined**  
New price as used in this Section VI shall be the price specified for New Material in Section IV.
2. **New Material**  
New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).
3. **Good Used Material**  
Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:
  - A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
  - B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.
4. **Other Used Material**  
Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:
  - A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
  - B. Is serviceable for original function but not suitable for reconditioning.
5. **Dead-Color Material**  
Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.
6. **Junk Material**  
Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.
7. **Temporarily Used Material**  
When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

#### VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

1. **Periodic Inventories, Notice and Representation**  
At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator, who shall in that event furnish Non-Operators with a copy thereof.
2. **Reconciliation and Adjustment of Inventories**  
Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.
3. **Special Inventories**  
Special inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
SOUTHEAST MALJAMAR GRAYBURG-SAN ANDRES UNIT  
MALJAMAR FIELD  
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
SOUTHEAST MALJAMAR GRAYBURG-SAN ANDRES UNIT  
MALJAMAR FIELD  
LEA COUNTY, NEW MEXICO

NO. \_\_\_\_\_

THIS AGREEMENT, entered into this 2nd day of May,  
19 66, 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 Commissioner of Public Lands of the State of New  
Mexico is authorized by an Act of the Legislature (Sec. 7-11-39, N.M.S.  
1953 Anno) to consent to or approve this agreement on behalf of the State of  
New Mexico, insofar as it covers and includes lands and mineral interests  
of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of  
New Mexico is authorized by an Act of the Legislature (Sec. 7-11-41, N.M.S.  
1953 Anno) to amend with the approval of the lessee, any oil and gas lease  
embracing State lands so that the length of the term of said lease may coin-  
cide with the term of such unitized development and operation of State lands;  
and

WHEREAS, the Oil Conservation Commission of the State of New  
Mexico is authorized by law (Sec. 65-3-14, N.M.S. 1953 Anno) to approve  
this agreement, and the conservation provisions hereof; 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 collectively 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 parties hereto hold sufficient interests in the Southeast Maljamar Grayburg-San Andres Unit covering the land herein-after described to give reasonably effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto, to institute and consummate secondary recovery operations, pressure maintenance or other recovery program, to conserve natural resources, to prevent waste and secure other benefits obtainable through development and operation of the Unit Area subject to this agreement under the terms, conditions and limitations herein set forth.

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the Unitized Formation as defined underlying the below defined Unit Area, and agree severally among themselves as follows:

ARTICLE 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder and valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of the agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State of New Mexico, are hereby accepted and made a part of this agreement.

ARTICLE 2. UNIT AREA AND DEFINITIONS. The area depicted on Exhibit "A" and described by tracts in Exhibit "B" attached hereto is hereby designated and recognized as constituting the Unit Area, containing 1,080 acres, more or less, in Lea County, New Mexico.

As used in this Agreement, the following terms set out shall have the following meaning.

2.1 "Unit Area" is defined as those lands specified on Exhibit "A" hereof.

2.2 "Land Commissioner" shall mean the Commissioner of Public lands of the State of New Mexico.

2.3 "Commission" shall mean the Oil Conservation Commission of the State of New Mexico.

2.4 "Secretary" shall mean the Secretary of the Interior of the United States of America.

2.5 "Department" shall mean the Department of the Interior of the United States of America.

2.6 "Director" shall mean the Director of the United States Geological Survey.

2.7 "Supervisor" shall mean the Oil and Gas Supervisor of the United States Geological Survey for the region in which the Unit Area is situated.

2.8 "Unitized Formation" shall mean the stratigraphic interval underlying the Unit Area, as to Tracts qualified under Article 5, extending from the top of the Grayburg Formation down to and including a depth of one hundred feet (100') below the top of the San Andres formation, said formation tops being encountered at depths of 4022 feet and 4360 feet, respectively, as reflected on the Lane Wells Gamma Ray-Neutron Log run December 10, 1957, in the Pennzoil (originally Zapata) Phillips State No. 2 well located 1980 feet from the South line and 660 feet from the West line of Section 28, T-17S,





2.9 "Unitized Land" shall mean that part of the Unit Area committed to this Agreement as to the Unitized Formation and qualified under Article 5.

2.10 "Unitized Substances" means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Land.

2.11 "Working Interest" means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing, and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.

2.12 "Working Interest Owner" shall mean a party who owns a Working Interest. The owner of oil and gas rights that are free of lease or other instruments conveying the Working Interest to another, shall be regarded as a Working Interest Owner to the extent of 7/8 of his working interest in Unitized Substances and as a Royalty Owner with respect to the remaining 1/8 interest therein.

2.13 "Royalty Interest" shall mean a right to or interest in any portion of the Unitized Substances or proceeds thereof, other than a Working Interest.

2.14 "Royalty Owner" shall mean a party hereto who owns a Royalty Interest.

2.15 "Tract Participation" shall mean that percentage of Unitized Substances allocated to a tract committed to this Agreement and which is based upon the formula as set forth in Article 12 of this Agreement.

2.16 "Phase I" shall mean the producing period of time beginning with the effective date hereof, and continuing until 7 o'clock a.m. on the first

day of the calendar month after 463,389 barrels of oil have been produced subsequent to June 30, 1964. For the purposes of determining barrels of oil produced hereunder, operators' monthly reports, Form C-115, filed with the New Mexico Oil Conservation Commission shall be deemed the controlling evidence. The percentage participation for each tract during Phase I is shown on Exhibit "C" attached hereto.

2.17 "Phase II" shall mean the producing period commencing immediately on the expiration of Phase I and continuing thereafter during the remaining term of this Agreement. The percentage participation for each tract during Phase II is shown on Exhibit "C" attached hereto.

2.18 "Voting Interest" of each Working Interest Owner shall mean the sum of the percentages obtained by multiplying such Working Interest Owners' Working Interest in each tract by the Tract Participation of such tract as designated in Phase II.

2.19 "Unit Participation" of each Working Interest Owner means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

2.20 "Unit Operating Agreement" shall mean the Agreement entitled "Unit Operating Agreement, Southeast Maljamar Grayburg-San Andres Unit, Maljamar Field, Lea County, New Mexico" of the same effective date as the effective date of this Agreement and executed by and between the Working Interest Owners who are Parties to this Agreement and any amendment thereof.

2.21 "Unit Operator" shall mean the Working Interest Owner designated in this Agreement to develop and operate the Unitized Formation. The rights delegated to the Unit Operator as such by this Agreement are not to be regarded as a Working Interest.

2.22 "Unit Manager" shall mean that person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator, as provided for in Article 7 hereof.



2.23 "Unit Operations" shall mean all operations conducted by Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of the development and operation of the Unit Area for the production of Unitized Substances.

2.24 "Unit Equipment" shall mean all personal property, lease and well equipment, plants and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

2.25 "Unit Expense" shall mean all costs, expenses, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

2.26 "Outside Substances" shall mean all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.

### ARTICLE 3. EXHIBITS AND ENLARGEMENT OF UNIT AREA

3.1 Exhibit "A", attached hereto, is a map showing, in addition to the boundary of the Unit Area, the boundaries and identity of tracts and leases in the Unit Area to the extent known to the Unit Operator. The various tracts, as shown on Exhibit "A", may be referred to by the number contained in the circle on each tract. Exhibit "B", attached hereto, is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the Unit Area. Exhibit "C" attached hereto, is a schedule of the Tract Participation of each tract during Phase I and Phase II, upon a presumed 100% commitment. Nothing herein or in said Exhibits 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 Exhibits as owned by such party.

3.2 "Exhibits Considered Correct". An Exhibit shall be considered to be correct until revised as herein provided.

3.3 "Revision of Exhibits". Exhibits "A", "B", and "C" shall be revised by the Unit Operator whenever pertinent changes render such revision necessary, or when requested by the Land Commissioner or Supervisor.

3.4 "Correction of Errors". It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this Agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners, the Land Commissioner and the Supervisor.

3.5 "Filing of Exhibits". When any Exhibit, or any revisions thereof, is revised pursuant to this Agreement, Unit Operator shall certify and file such Exhibits, or any revisions thereof, for record in the County or Counties in which this Agreement is filed and shall file at least two (2) copies with the Land Commissioner and not less than six (6) copies thereof with the Supervisor.

3.6 "Enlargement of Unit Area". The Unit Area may, with the approval of Working Interest Owners of not less than eighty percent (80%) of the Voting Interest and the approval of the Land Commissioner and the Director, be enlarged to include therein any additional tract or tracts whenever such expansion is necessary or advisable to conform with the purposes of this Agreement and the Unit Operator, acting on behalf of, and with such approval of the Working Interest Owners as provided in the Unit Operating Agreement, has negotiated an agreement or agreements with the owners of such tract or tracts committing such owners to this Agreement and to the Unit Operating Agreement. Upon such approved enlargement, the Tract Participation of all committed tracts shall be adjusted and Exhibits "A", "B" and "C" shall be revised to conform thereto.

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Any enlargement of the Unit Area shall be affected in the following manner:

(a) Unit Operator, after preliminary concurrence by the Land Commissioner and the Director, shall prepare a notice of proposed enlargement describing the contemplated changes in the

boundaries of the Unit Area, the reasons therefor, the proposed effective date thereof, preferably 7 o'clock a.m. of the first day of the month subsequent to the date of notice.

(b) Said notice shall be delivered to the Land Commissioner, the Supervisor and copies thereof mailed to the last known address of each Working Interest Owner, lessee, and lessor, whose interests are affected, setting out the basis for admission, the Unit Participation to be assigned to such tract or tracts, and other pertinent data, advising that thirty (30) days will be allowed for submission to the Unit Operator of any objections.

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(c) Upon expiration of the 30-day period provided in the preceding section (b) hereof, Unit Operator shall file with the Land Commissioner, Supervisor, and the Commission evidence of mailing of the notice of enlargement, evidence of consent by not less than eighty percent (80%) of the Voting Interest of Working Interest Owners and ~~a copy of any objections thereto which have been filed with the Unit~~ Operator, together with an application in sufficient number for approval of such enlargement, appropriate joinders, and such other information as may be necessary to show that the lands to be added to the Unit Area have qualified under Articles 5 and 33.

(d) After due consideration of all pertinent information the enlargement shall, upon approval by the Land Commissioner, the Director, and the Commission, become effective as of the date prescribed in the notice thereof.

#### ARTICLE 4. UNITIZED LAND AND UNITIZED SUBSTANCES

4.1 All land committed to this agreement as to the Unitized Formation shall constitute land referred to herein as "unitized land" or "land subject to this agreement." All oil and gas in said Unitized Formation of the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

## ARTICLE 5. TRACTS QUALIFIED FOR UNIT PARTICIPATION

5.1 As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the tract involved is qualified under this Article.

On and after the effective date hereof, the tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances therefrom shall be those tracts within the Unit Area and more particularly described in Exhibit "B" that are qualified as follows:

- (a) Each tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have signed or ratified this Agreement and the Unit Operating Agreement and Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have signed or ratified this Agreement.
- (b) Each tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (1) all such Working Interest Owners in such tract have joined in a request for the qualification of such tract, and as to which (2) eighty percent (80%) of the combined Voting Interest in all tracts that meet the requirements of Section (a) above have voted in favor of the qualification of such tract. For the purpose of this Section (b) the Voting Interest of a Working Interest Owner shall be equal to the ratio (expressed in percentage) that its aggregate Phase II Unit Participation attributable to tracts that qualify under Section (a) bears to the total Phase II Unit Participation of all Working Interest Owners attributable to all tracts that qualify under Section (a) above.

(c) Each tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement and the Unit Operating Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working Interest Owner who operates the tract and all of the other Working Interest Owners in such tract who have become parties to this Agreement have joined in a request for qualification of such tract and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners of Unitized Land, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such tract who are not parties to this Agreement and which arise out of the qualification of the tract and as to which (2) eighty percent (80%) of the combined Voting Interest in all tracts that meet the requirements of Sections (a) and (b) above, have voted in favor of the qualification of such tract and acceptance of the indemnity agreement. For the purposes of this Section (c), the Voting Interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) that its aggregate Phase II Unit Participation attributable to tracts that qualify under Sections (a) and (b) bears to the total Phase II Unit Participation of all Working Interest Owners attributable to all tracts that qualify under Sections (a) and (b). Upon the qualification of such a tract, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such tract who have become parties to such Agreements, in proportion to their respective Working Interests in the tract.



## ARTICLE 6. UNIT OPERATOR

6.1 Cities Service Oil Company is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term Working Interest Owner when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

## ARTICLE 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR

7.1 Unit Operator shall have the right to resign at any time but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been served by Unit Operator on all Working Interest Owners, the Land Commissioner and the Director, and until all wells are placed in a satisfactory condition for suspension or abandonment, whichever is required by the Supervisor, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the affirmative vote of at least two (2) Working Interest Owners owning at least seventy-five percent (75%) of the Voting Interests other than the Voting Interest of such owner then acting as Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the Director. In all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for performance

of the duties of Unit Operator, and shall not later than thirty (30) days before such resignation or removal becomes effective appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, materials, appurtenances, and all pertinent unit data requested by the successor Unit Operator, used in conducting the Unit Operations and owned by the Working Interest Owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purposes of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

#### ARTICLE 8. SUCCESSOR UNIT OPERATOR

8.1 Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, a successor Unit Operator shall be selected by the affirmative vote of at least two (2) Working Interest Owners having in the aggregate not less than seventy-five percent (75%) of the Voting Interest; provided, however, that a deposed Unit Operator may not vote to succeed itself. Such selection shall not become effective until:

- (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator; and
- (b) the selection shall have been approved by the Land Commissioner and filed with the Supervisor.

If no successor Unit Operator is selected and accepted as herein provided, Land Commissioner and the Director, at their election, may declare this Agreement terminated.

## ARTICLE 9. UNIT OPERATING AGREEMENT

9.1 Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid and apportioned among and borne by the Working Interest Owners all in accordance with the agreement or agreements entered into by and between the Unit Operator and the Working Interest Owners. Any agreement or agreements entered into between the Working Interest Owners and the Unit Operator as provided in this section are herein referred to as the "Unit Operating Agreement". Such Unit Operating Agreement shall also set forth such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by 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 obligations established under this Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Three (3) true copies of any Unit Operating Agreement executed pursuant to this Article shall be filed with the Supervisor, prior to approval of this Unit Agreement, and as many copies as is requested shall be filed with the Land Commissioner.

## ARTICLE 10. 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, including surface rights, which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this Agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the right of possession and use vested in the Parties hereto only for the purposes herein specified.

## ARTICLE 11. PLAN OF OPERATION

11.1 It is recognized and agreed by the Parties hereto that the Unit Area is already developed and productive, and no further drilling is contemplated, except such as may be incidental to carrying out the unit plan of operation.

Inasmuch as the primary purpose of this Unit Agreement is to permit the institution and consummation of a secondary recovery or pressure maintenance program for the maximum economic production of Unitized Substances consistent with good engineering and conservation, Unit Operator, after approval of Working Interest Owners, concurrently with the filing of this Unit Agreement for final approval, shall submit to the Land Commissioner and the Supervisor for approval, a plan of operation for the Unitized Land, and such plan, upon approval by the Land Commissioner and the Supervisor shall constitute the future operating obligations of the Unit Operator under this Unit Agreement for the period specified therein. Thereafter, from time to time, before the expiration of any existing plan, the Unit Operator, with the approval of the Working Interest Owners, shall submit to the Land Commissioner and the Supervisor for approval a plan for an additional specified period of operation; said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interest of all parties to this Unit Agreement. Reasonable diligence shall be exercised in complying with the obligations of any plan of operation.

Any plan submitted pursuant to this Article shall be complete and adequate as the Land Commissioner and the Supervisor may determine to be necessary for timely and diligent operation and for proper conservation of Unitized Substances and shall:

- (a) Specify the number and location of any wells to be drilled and the time of such drilling; and
- (b) Specify the number and location of any well to be selected for injection; and
- (c) Specify all pertinent operating practices to be employed in the interests of all parties to this Agreement.

Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or pressure maintenance purposes in accordance with a plan of operation approved by the Land Commissioner and the Supervisor, including the right to convert producing wells and to drill and maintain injection wells on Unitized Land and to use abandoned wells or wells producing from the Unitized Formation for said purposes. Moreover, Unit Operator shall have the right to produce brine or water, or both, from any formation above or below the Unitized Formation, for use in injection into the Unitized Formation. After commencement of secondary operations, Unit Operator shall furnish the Commissioner and the Supervisor monthly progress reports including injection and production reports for each unit well.

#### ARTICLE 12. TRACT PARTICIPATION

12.1 Tract Participation. In Exhibit "C" attached hereto, there are listed and numbered the various tracts within the Unit Area and set forth opposite each tract are the percentages of participation for each tract in the Unit Area during Phase I and Phase II calculated on the basis of one hundred percent (100%) tract commitment.

The percentage of participation of each tract during Phase I shown on Exhibit "C" was determined in accordance with the following formula:

Tract Participation during Phase I equals

$$\frac{\text{Tract Production for one year Ending 6-30-64}}{\text{Unit Area Production for one year Ending 6-30-64}} \times 50\% \text{ plus}$$

$$\frac{\text{Tract Remaining Primary as of 6-30-64}}{\text{Unit Area Remaining Primary as of 6-30-64}} \times 50\%$$

The percentage of participation of each tract during Phase II shown on Exhibit "C" was determined in accordance with the following formula:

Tract Participation during Phase II equals

$$\frac{\text{Tract Ultimate Primary}}{\text{Unit Area Ultimate Primary}} \times 90\% \text{ plus}$$

$$\frac{\text{Tract Developed Acreage}}{\text{Unit Area Developed Acreage}} \quad \times 5\% \text{ plus}$$

$$\frac{\text{Tract Acreage}}{\text{Unit Area Acreage}} \quad \times 5\%$$

The Unit Area ultimate primary recovery as used herein is the sum of the accumulated oil production through June 30, 1964 (2,105,747 bbls.) as reported on pertinent operators' monthly reports (Form C-115) on file with the Commission and the estimated remaining primary oil reserves as of June 30, 1964, which is 463,389 barrels.

Developed acreage as used herein above is the acreage in all regular 40-acre subdivisions which have produced oil from the zone referred to herein as the Unitized Formation.

If all tracts of this Unit Agreement are not committed hereto, Unit Operator shall revise Exhibit "C", promptly after approval of this Unit Agreement, to show all tracts committed to this Agreement by setting forth opposite each committed tract a revised Tract Participation percentage therefor which shall be calculated by using the same tract factors and formula which were used to arrive at the Tract Participation percentage of each tract as set out in the original Exhibit "C", but applying the same only to said committed tracts. Such revised Exhibit "C" shall be filed pursuant to Article 3. Thereafter, Exhibit "C" shall be revised by Unit Operator with the approval of the Working Interest Owners whenever any change in committed tracts renders such revision necessary. Such revised Exhibit "C" shall, upon approval by the Land Commissioner and the Director, supersede, as of its effective date, the last previously effective Exhibit "C". In any revision of Exhibit "C" pursuant to Article 3, the revised percentage participations of the respective tracts which were committed hereto prior to such revision shall remain in the same ratio one to another. In any revision of Exhibit "C" pursuant to Article 33, the revised percentage participations of the respective tracts which were committed hereto prior to such revision shall be recalculated

using the same tract factors and formula which were used in calculating the percentage participation of each tract as set forth in Exhibit "C", applying the same to the committed tracts only.

### ARTICLE 13. ALLOCATION OF UNITIZED SUBSTANCES

All Unitized Substances produced and saved shall be allocated to the qualified Tracts in accordance with the respective Tract Participations as set out in Exhibit "C" effective during the period that the Unitized Substances were produced. The amount of Unitized Substances allocated to each Tract, regardless of whether it is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal effect. No tract qualified for participation shall be subsequently excluded from participation hereunder on account of depletion of its Unitized Substances, and nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the qualification of any Tract. If any Oil and Gas Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners entitled thereto by virtue of the ownership of Oil and Gas Rights therein. Such parties shall have the right to receive such production in kind at a common point within the Unitized

Land and to construct, maintain, and operate within the Unitized Land all necessary facilities for that purpose, provided such facilities are so constructed, maintained, and operated so as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the receiving party.

If any Working Interest Owner fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto. Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party ninety (90) days' notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for payment of all Royalty on the lease or leases affected.

#### ARTICLE 14. ROYALTY SETTLEMENT

14.1 The State of New Mexico and the United States and all Royalty Owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator and shall make deliveries of such royalty share taken in kind in conformity with the applicable



contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases except that said royalties shall be computed in accordance with the terms of this Agreement.

14.2 Use of Outside Substances. If gas obtained from lands or formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulation or production or increasing ultimate recovery, which shall be in conformity with a plan of operation first approved by the Land Commissioner and the Supervisor, a like amount of gas, with appropriate deduction for loss or depletion from any cause, may be withdrawn from the Unitized Formation royalty free as to dry gas, but not royalty free as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as otherwise may be consented to by the Land Commissioner and the Supervisor as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this Unit Agreement.

14.3 Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all Unitized Substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation; provided, that for leases on which the royalty rate depends on the daily average production per well, such average production shall be determined in accordance with the operating regulations as though the unitized lands were a single consolidated lease.

## ARTICLE 15. RENTAL SETTLEMENT

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

Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico.

## ARTICLE 16. CONSERVATION

16.1 Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal laws or regulations.

## ARTICLE 17. DRAINAGE AND BORDER AGREEMENTS

17.1 The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances by wells on land not subject to this Agreement.

The Unit Operator, upon approval of the Supervisor and Land Commissioner is hereby empowered to enter into a border line agreement or agreements with the Working Interest Owners of adjoining lands not subject to this Unit Agreement, with respect to the operation in the border area for the maximum economic recovery, conservation purposes, and proper protection of the parties and interests affected.

ARTICLE 18. LEASES AND CONTRACTS CONFORMED AND  
EXTENDED

18.1 The terms, conditions, and provisions of all leases, sub-leases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement, and, without limiting the generality of the foregoing, all leases, sub-leases, and contracts are particularly modified in accordance with the following:

- (a) The development and operation of the Unitized Formation under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract subject to this Agreement, regardless of whether there is any development of any particular part or tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.
- (b) Drilling and producing operations performed hereunder upon any tract will be accepted and deemed to be performed upon and for the benefit of each and every tract of Unitized Land and no

lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all Unitized Land pursuant to direction or consent of the Secretary or his duly authorized representative shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of Unitized Land.

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

(e) Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) Any lease embracing lands of the State of New Mexico, which is made subject to this Agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to that portion committed and that portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this Agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease (whether

within or without the Unitized Land), (1) if, and for so long as oil or gas are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this Agreement; or (2) if, and for so long as some part of the lands embraced in such lease committed to this Agreement are allocated Unitized Substances; or (3) if, at the expiration of Phase II the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein and for so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas said lease shall continue in full force and effect as to all the lands embraced therein so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

#### ARTICLE 19. COVENANTS RUN WITH LAND

19.1 The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and

their successors in interest until this Agreement terminates, and any grant, transfer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest, Royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

#### ARTICLE 20. EFFECTIVE DATE

20.1 This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7 o'clock a.m., of the first day of the calendar month next following:

- (a) The qualification, in accordance with Article 5, of tracts representing eighty-five percent (85%) of Phase II of the Unit Participation on the original Exhibit "C" attached hereto; and
- (b) The approval of this Agreement by the Land Commissioner, the Commission, and the Director; and
- (c) The filing of at least one counterpart of this Agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and provided, further, that if (a) and (b) above are not accomplished on or before December 31, 1966, this Agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning at least eighty percent (80%) of the combined Phase II Participation and have decided to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a) and (b) above

are not accomplished before said extended expiration date, this Agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect.

Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for record in the office where a counterpart of this Agreement is recorded, a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date.

#### ARTICLE 21. TERM

21.1 The term of this Agreement shall be for and during the time that Unitized Substances are or can be produced in paying quantities, i.e., in quantities sufficient to pay for the cost of producing same from wells on the Unitized Land, and for so long thereafter as drilling, reworking or other diligent operations are prosecuted on Unitized Land without cessation of more than ninety (90) consecutive days, and so long thereafter as Unitized Substances can be produced as aforesaid. Termination under this Article 21 shall be effective as of the first day of the month after the Unit Operator and Working Interest Owners owning eighty percent (80%) of the Phase II Participation shall determine on confirmatory data satisfactory to the Land Commissioner, Commission, and the Director, that Unit Operations are no longer paying.

#### ARTICLE 22. TERMINATION BY WORKING INTEREST OWNERS

22.1 For any reason other than provided in Article 21 above, this Agreement may be terminated by Working Interest Owners owning in the aggregate eighty percent (80%) or more of the Unit Participation with the approval of the Land Commissioner, Commission, and the Director. Notice of any such termination shall be given by the Unit Operator to all parties hereto.

#### ARTICLE 23. EFFECT OF TERMINATION

23.1 Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate tracts just as if this Agreement had never been entered into.

ARTICLE 24. SALVAGING EQUIPMENT UPON TERMINATION

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

ARTICLE 25. CERTIFICATE OF TERMINATION

25.1 Unit Operator shall within thirty (30) days after the effective date of termination of this Agreement file for record in the office or offices where a counterpart of this Agreement is recorded, a certificate setting forth such termination date.

ARTICLE 26. RATE OF PROSPECTING, DEVELOPMENT  
AND PRODUCTION

26.1 All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, at his discretion, the rate of prospecting and development and, within the limits made or fixed by the Commission, to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Land Commissioner and as to any lands of the State of New Mexico or privately-owned land subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this Section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.



## ARTICLE 27. APPEARANCES

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

## ARTICLE 28. NOTICES

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

## ARTICLE 29. NO WAIVER OF CERTAIN RIGHTS

29.1 Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State of New Mexico or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, each party hereto, covenants that, during the existence of this Agreement, such party shall not resort to any action at law or in equity to partition the Unitized Land or the facilities used in the development or operation thereof and to that extent waives the benefits of all laws authorizing such partition.

ARTICLE 30. UNAVOIDABLE DELAY

30.1 All obligations imposed by this Agreement on each party hereto, except for the payment of money, shall be suspended while said party is prevented from complying therewith, in whole or in part, by strikes, fire, war, civil disturbances, act of God, federal, state or municipal laws, orders or regulations, inability to secure materials or other causes beyond the reasonable control of said party; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed; and provided further that no party shall be required against its will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other interests subject hereto shall be terminated by reason of suspension of Unit Operations due to the aforesaid causes.

ARTICLE 31. NONDISCRIMINATION

31.1 In connection with the performance of work under this Agreement, the Unit Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F. R. 12319), which are hereby incorporated by reference in this Agreement.

ARTICLE 32. LOSS OF TITLE

32.1 In the event title to any tract of Unitized Land shall fail and the true owner cannot be induced to join in this Unit Agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute to title as to any Royalty, Working Interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to State or Federal land or leases, no payments of funds due the State of New Mexico or the United States of America shall be withheld, but such funds shall be deposited as directed by the Commissioner or the Supervisor (which ever is appropriate) to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

32.3 In order to avoid title failures which might incidentally cause the title to a Working Interest or interests to fail, the owners of the surface rights to lands lying within the Unitized Land, severed minerals or Royalty Interests in said lands, and improvements located on said lands but not utilized for Unit Operations, shall individually be responsible for the rendition and assessment, for ad valorem tax purposes, of all such property, and for the payment of such taxes, except as otherwise provided in any contract or agreement between such owners and a Working Interest Owner or owners or in the Unit Operating Agreement. If any ad valorem taxes are not paid by such owners responsible therefor when due, the Unit Operator may, at any time prior to tax sale, pay the same, redeem such property, and discharge such tax liens as may arise through non-payment. In the event the Unit Operator makes any such payment or redeems any such property from tax sale, the Unit Operator shall be reimbursed therefor by the Working Interest Owners in proportion to their respective Unit Participation; and the Unit Operator shall withhold from the proceeds otherwise due to said delinquent taxpayer or taxpayers, an amount sufficient to defray the costs of such payment or redemption, such withholdings to be distributed among the Working Interest Owners in proportion to their respective contributions toward such payment or redemption.

### ARTICLE 33. NON-JOINDER AND SUBSEQUENT JOINDER

33.1 Any oil or gas interests in lands within the Unit Area, not committed hereto prior to submission of this Agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this Agreement, and, if the interests is a Working Interest, by the owner of such interest also subscribing to the Unit Operating Agreement. It is understood and agreed, however, that after the effective date hereof the commitment hereto of any Working Interest within the Unit

Area shall be upon such terms and conditions as may be negotiated by the Unit Operator, the Working Interest Owners in the committed tracts, and the owner of such interest. Such negotiated basis of participation is subject to preliminary approval of the Director and the Commissioner.

After the effective date hereof, joinder by a Royalty Owner must be consented to in writing by the Working Interest Owner committed hereto and responsible for the payment of any benefits that may accrue hereunder of such Royalty Interest. Joinder by any owner of a Royalty Interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as effectively committed hereto. Joinder to the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Except as may otherwise herein be provided, subsequent joinders to this Agreement shall be effective as of the first day of the month following the filing with the Land Commissioner, Commission and the Supervisor of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this Agreement, unless objection to such joinder is duly made within sixty (60) days by the Land Commissioner, Commission or Director.

#### ARTICLE 34. EXECUTION

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

34.2 "Joinder in Dual Capacity". It shall not be necessary for parties owning both Working Interests and Royalty Interests to execute this

Agreement in both capacities in order to commit both classes of interests. Execution hereof by any such party in one capacity shall also constitute execution in the other capacity.

34.3 "Recording". For recording purposes in the office of the County Clerk of Lea County, State of New Mexico, or in any other governmental office wherein recording is required, Unit Operator is authorized to include in one copy the signature sheets of all signed counterparts and of all ratifications.

#### ARTICLE 35. TAXES

35.1 Unit Operator shall pay, or cause to be paid, all taxes levied on or measured by the Unitized Substances in and under, or that may be produced, gathered, and sold from the lands subject hereto, or upon the proceeds or net proceeds derived therefrom to the extent that the same are made payable by law by any Working Interest Owner. Each Working Interest Owner shall reimburse Unit Operator for taxes so paid on its behalf and such Working Interest Owner shall make proportionate deductions of such taxes as paid in settling with its Royalty Owners in each separately owned tract. No such taxes shall be charged to the United States, the State of New Mexico, or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

#### ARTICLE 36. UNITED STATES DEPARTMENT OF AGRICULTURE STIPULATION

36.1 Nothing herein contained shall be construed as modifying in any manner any special stipulations in applicable leases pertaining to the United States Department of Agriculture jurisdiction.

#### ARTICLE 37. MEASUREMENT OF PRODUCTION AS OF THE EFFECTIVE DATE

37.1 "Oil in Lease Tanks". Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipe line

connections, as of 7:00 o'clock, 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 remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provisions of the applicable lease or other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unit Production produced after the effective date hereof.

37.2 "Overproduction". 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 shall be regarded as a part of the Unit Production produced after the effective date hereof and shall be charged to such tract as having been delivered to the parties entitled to Unit Production allocated to such tract.

#### ARTICLE 38. RELATIONSHIP OF PARTIES

38.1 "No Partnership". The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

38.2 "No Sharing of Market". Nothing in this Agreement shall be construed as providing, directly or indirectly, for any cooperative refining or joint sale or cooperative marketing of Unit Production.

38.3 "Royalty Owners Free of Costs". This Agreement is not intended to impose, and shall not be construed to impose, upon any Royalty Owner any obligation to pay for Unit Expense unless such Royalty Owner is otherwise so obligated.

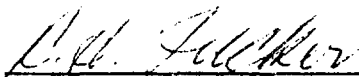
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and have set opposite their respective names the date of execution.

DATE \_\_\_\_\_

ATTEST:

By   
~~1946~~, Secretary

UNIT OPERATOR  
CITIES SERVICE OIL COMPANY

  
Vice President

ADDRESS Cities Service Building  
Bartlesville, Oklahoma



NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505  
(505) 827-7131

June 9, 1999

Cross Timbers Operating Company  
3000 North Garfield, Suite 175  
Midland, Texas 79705

Attn: Mr. Darrin L. Steed

**RE:    *Injection Pressure Increase,  
Southeast Maljamar Grayburg San Andres Unit,  
Lea County, New Mexico***

Dear Mr. Safargar:

Reference is made to your request dated June 4, 1999 to increase the surface injection pressure on one well in the above referenced waterflood unit. This request is based on a step rate test conducted on May 18, 1999. The results of the test have been reviewed by my staff and we feel an increase in injection pressure is justified at this time.

You are therefore authorized to increase the surface injection pressure on the following well:

Well and Location	Maximum Surface Injection Pressure
Southeast Maljamar Grayburg San Andres Unit Well No.614 Unit Letter N, Section 29, Township 17 South, Range 33 East	2700 PSIG

The Division Director may rescind this injection pressure increase if it becomes apparent that the injected water is not being confined to the injection zone or is endangering any fresh water aquifers.

Sincerely,

Lori Wrotenbery  
Director

LW/MWA/kv

cc:    Oil Conservation Division - Hobbs  
Files: 4th QTR 99 PSI-X; Case Files No. 3461, 11742; WFX-731



**JAMES BRUCE**

ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

SUITE B  
612 OLD SANTA FE TRAIL  
SANTA FE, NEW MEXICO 87501

(505) 982-2043  
(505) 982-2151 (FAX)

March 13, 1997

**Hand Delivered**

Michael E. Stogner  
New Mexico Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

Re: Case 11742 (Application of Cross Timbers Operating  
Company for Unit Expansion)

Dear Mr. Stogner:

Enclosed is a proposed order in the above matter, together with a disk containing the order. As mentioned at hearing, Cross Timbers would like to expand the unit effective April 1, 1997, so your attention to this matter is appreciated. Thank you.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jim Bruce", with a stylized, cursive script.

James Bruce

Attorney for Cross Timbers  
Operating Company

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:

CASE NO. 11742  
ORDER NO. R-

APPLICATION OF CROSS TIMBERS  
OPERATING COMPANY FOR UNIT  
EXPANSION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 6, 1997, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this \_\_\_\_\_ day of March, 1997, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Cross Timbers Operating Company, is operator of the Southeast Maljamar Grayburg-San Andres Unit, which currently covers 1080 acres of state and federal land, described as follows:

Township 17 South, Range 33 East, N.M.P.M.

Section 29:      W $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NE $\frac{1}{4}$ , W $\frac{1}{2}$ , SE $\frac{1}{4}$   
Section 30:      NE $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$ , SE $\frac{1}{4}$ SE $\frac{1}{4}$   
Section 32:      N $\frac{1}{2}$ N $\frac{1}{2}$ , SE $\frac{1}{4}$ NE $\frac{1}{4}$

The unit was approved by Division Order No. R-3130, for the purpose of conducting a waterflood project in the Maljamar Grayburg-San Andres Pool, which was approved by Division Order No. R-3134. The unitized formation is from the top of the Grayburg formation down to and including 100 feet below the top of the San Andres formation.

(3) The applicant seeks to expand the unit to include three additional tracts, comprised of the 200 acres state and federal land described below:

Township 17 South, Range 33 East, N.M.P.M.

Section 32:       $N\frac{1}{2}SE\frac{1}{4}$  (unit tract 13)  
Section 33:       $NW\frac{1}{4}NW\frac{1}{4}$  (unit tract 11)  
                     $N\frac{1}{2}SW\frac{1}{4}$  (unit tract 12)

The expanded unit area will be comprised of 400 acres of federal land (31.25%) and 880 acres of state land (68.75%). The unit area, after expansion, is described on Exhibit "A" attached hereto.

(4) No interested party appeared and objected to the proposed expansion of the unit.

(5) The sole working interest owner in the unit, as expanded, is Cross Timbers Oil Company, who has ratified the unit expansion.

(6) The royalty interest owners in the unit, the Commissioner of Public Lands of the State of New Mexico and the Bureau of Land Management of the United States Department of Interior, have approved the expansion of the unit.

(7) There are numerous overriding royalty interest owners in the three tracts to be added to the unit. A number of the overriding royalty interest owners have ratified expansion of the unit. Those who have not ratified the expansion of the unit will continue to be paid on a lease basis by the unit operator.

(8) Due to differences in overriding royalty ownership in the tracts to be added to the unit, there should be well location restrictions on wells drilled or recompleted in the expanded unit which offset the three additional unit tracts.

(9) The Maljamar Grayburg-San Andres Pool is continuous under the unit, as expanded, and represents a common source of supply.

(10) The applicant has been further developing the unit since 1996 by drilling additional producing and injection wells, and has plans to drill additional wells in the unit during 1997.

(11) The applicant estimated that the existing unit area will produce 6,116,000 barrels of oil from the Maljamar Grayburg-San Andres Pool, with 58% of the production being secondary oil. The

applicant also estimated that ultimate primary production from the three tracts being added to the unit will be 536,000 barrels of oil. If the secondary:primary recovery ratio for the expanded unit area remains the same as for the existing unit area, expanding the unit will allow the recovery of an additional 740,000 barrels of oil.

(12) The Unit Agreement approved by Division Order No. R-3130 is not being amended by the applicant, other than to revise Exhibits A, B, and C thereto to reflect the three tracts being added to the unit.

(13) The Phase II tract participation formula in the Unit Agreement is being used to allocate production among the tracts in the expanded unit area, and the formula is fair and equitable.

(14) All plans of development and operation, expansions or contractions of participating areas, or expansions or contractions of the unit area should be submitted to the Director of the Division for approval.

(15) Approval of the Unit Agreement, as amended by the revised Exhibits A, B, and C thereto, should promote the prevention of waste and the protection of correlative rights within the expanded unit area.

**IT IS THEREFORE ORDERED THAT:**

(1) The expansion of the Southeast Maljamar Grayburg-San Andres Unit is hereby approved for oil and gas produced from the top of the Grayburg formation to 100 feet below the top of the San Andres formation underlying 1280 acres of federal land (400 acres, or 31.25%) and state land (880 acres, or 68.75%) in Lea County, New Mexico, as further described in Exhibit "A" attached hereto and made a part hereof.

(2) The plan contained in the Unit Agreement for the development and operation of the expanded unit area is hereby approved in principle as a proper conservation measure; provided, however, notwithstanding any of the provisions contained in the 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 Division to supervise and control operations for the unit and production of oil and gas therefrom.

(3) Without prior approval of the Division, no well may be drilled or recompleted in the Maljamar Grayburg-San Andres Pool within 330 feet of (a) the boundary between the existing unit and unit tracts 11, 12, and 13, or (b) the boundary between unit tracts 12 and 13.

(4) In the event of subsequent joinder by any other party, or expansion or contraction of the unit area, the unit operator shall file with the Division, within 30 days thereafter, counterparts of the Unit Agreement or ratifications of same reflecting the subscription of those interests having joined or ratified.

(5) All plans of development and operation, all unit participating areas and expansions or contractions of the unit area, shall be submitted to the Director of the Division for approval.

(6) This order shall be effective upon the first of the month following approval by the Division, the Commissioner of Public Lands of the State of New Mexico, and the appropriate agency of the United States Department of Interior; this order shall terminate *ipso facto* upon the termination of said Unit Agreement; and the last unit operator shall notify the Division immediately in writing of such termination.

(7) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY  
Director

[Seal]

CASE NO. 11742  
ORDER NO. R-  
PAGE -5-

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EXHIBIT "A"  
CASE NO. 11742  
ORDER NO. R-  
SOUTHEAST MALJAMAR GRAYBURG-SAN ANDRES UNIT  
CROSS TIMBERS OPERATING COMPANY  
LEA COUNTY, NEW MEXICO

TOWNSHIP 17 SOUTH, RANGE 33 EAST, N.M.P.M.

Section 29:	$W\frac{1}{2}NE\frac{1}{4}$ , $SE\frac{1}{4}SE\frac{1}{4}$ , $W\frac{1}{2}$ , $SE\frac{1}{4}$
Section 30:	$NE\frac{1}{4}$ , $N\frac{1}{2}SE\frac{1}{4}$ , $SE\frac{1}{4}SE\frac{1}{4}$
Section 32:	$N\frac{1}{2}N\frac{1}{2}$ , $SE\frac{1}{4}NE\frac{1}{4}$ , $N\frac{1}{2}SE\frac{1}{4}$
Section 33:	$NW\frac{1}{4}NW\frac{1}{4}$ , $N\frac{1}{2}SW\frac{1}{4}$



NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505  
(505) 827-7131

April 3, 1997

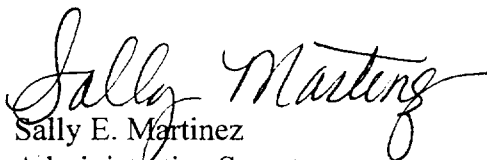
Kellahin and Kellahin  
117 N. Guadalupe  
P. O. Box 2265  
Santa Fe, New Mexico 87504

**RE: CASE NO. 11742**  
**ORDER NO. R-3130-A**  
**ORDER NO. R-3134-C**

Dear Sir:

Enclosed are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

  
Sally E. Martinez  
Administrative Secretary

cc: BLM - Carlsbad  
Pete Martinez - SLO

**\*NOTICE OF ENLARGEMENT**

*Case 11742*

UNIT NAME: SOUTHEAST MALJAMAR GRAYBURG SAN ANDRES UNIT  
OPERATOR: CROSS TIMBERS OIL COMPANY  
COUNTY: LEA

APPROVAL DATES	ORIGINAL		OCC CASE NO. OCC ORDER NO.	TOTAL ACREAGE	STATE	FEDERAL	FEE	SEGREGATION	
	EFFECTIVE DATE							CLAUSE	TERM
11-1-1966			CASE NO. 3461	1280.00	880.00	400.00	0	MODIFIED	5 YEARS
			ORDER NO. R-3130						SO LONG AS

ORIGINAL APPROVALS

SLO--2-1-97  
OCD--2-1-97  
BLM--2-1-97

ENLARGEMENT APPROVALS

SLO--1-29-97  
BLM--1-28-97

ENLARGEMENT EFFECTIVE DATE: 3-1-1997

UNIT AREA:

TOWNSHIP 17 SOUTH, RANGE 33 EAST

SECTION 29: SE/4NE/4, W/2NE/4, W/2, SE/4  
SECTION 30: NE/4, N/2SE/4, SE/4SE/4  
SECTION 32: N/2N/2, SE/4NE/4, N2SE/4  
SECTION 33: NW/4NW/4, N/2SW/4

\*The unit area is enlarged to include: NW/4NW/4, N/2SW/4, Section 33, N/2SE/4, Section 32-17S-33E, containing 200 acres.





REVISED  
EXHIBIT "B"  
SEPTEMBER 1, 1996

SOUTHEAST MALJAMAR GRAYBURG/SAN ANDRES UNIT  
LEA COUNTY, NEW MEXICO

Tract Number	Description of Land	# Acres	Lease #	Basic Royalty and Ownership Percentage	Lessee of Record	ORR Owner and Production Payment Owner	ORRI/ PPI	Amount of ORRI/PPI	W/O	Amount of WI	Percent of Participation in Unit Phase II Eff (9/1/70)
1	N/2 SE/4, SE/4 SE/4 Sec 30-T17S-R33E	120	LC-060967 HBP	US - Sch D	Phillips Petroleum Company	Billy Frank Bunting Robert H. Bunting Charles Brice Dowaliby James M. Dowaliby Mary Evelyn Roberts Betty B. Thompson David H. & Gay B. Bell Trust	ORRI ORRI ORRI ORRI ORRI ORRI ORRI	.0010416 .0010416 .0020837 .0020837 .0083327 .0010417 .0031250 .01875	Cross Timbers Oil Company	100.000000%	14.988906%
	N/2 NE/4, SW/4 NE/4 Sec 30-T17S-R33E	120	LC-062004 HBP	US - 12%	OXY USA Inc.	None	None	None	Cross Timbers Oil Company	100.000000%	2.174986%
	SE/4 NE/4 Sec 30-T17S-R33E	40	LC-062004 HBP	US - 12%	OXY USA Inc.	None	None	None	Cross Timbers Oil Company	100.000000%	3.217074%
	NW/4 Sec 29-T17S-R33E	160	B-2229	State - 12%	Phillips Petroleum Company	None	None	None	Cross Timbers Oil Company	100.000000%	4.940182%
	W/2 NE/4, SE/4 NE/4 Sec 29-T17S-R33E	120	B-2229	State - 12%	Phillips Petroleum Company	Cross Timbers Oil Company Cross Timbers Oil Company Everett R. Jones, Jr. Reuben I. Wolfson Properties Sam Wolfson Oscar A. Bourg, Jr. Bourg Heirs Blind Trust	ORRI ORRI ORRI ORRI ORRI ORRI ORRI	.0546875 .0273438 (1) .0104167 (2) .0213623 (1) (3) .0213623 (1) (3) .0012207 (1) (3) .0048828 (1) (3) .1412761	Cross Timbers Oil Company	100.000000%	2.344966%
SW/4 Sec 29-T17S-R33E	SW/4 Sec 29-T17S-R33E	160	B-2516	State - 12%	OXY USA Inc.	Shirley C. Childress John E. Cochran Cross Timbers Oil Company	ORRI ORRI ORRI	.0078125 .0078125 .109375 .125	Cross Timbers Oil Company	100.000000%	19.898655%
						None	None	None	Cross Timbers Oil Company	100.000000%	19.373548%

LEA COUNTY, NEW MEXICO

[illegible]

SOUTHEAST MALJAMAR GRAYBURG/SAN ANDRES UNIT  
LEA COUNTY, NEW MEXICO

Tract Number	Description of Land	# Acres	Lease #	Basic Royalty and Ownership Percentage	Lessee of Record	ORR Owner and Production Payment Owner	ORRI/ PPI	Amount of ORRI/PPI	WIO	Amount of WIO	Percent of Participation in Unit Phase II Eff (9/1/70)
3	N/2 SE/4 Sec 32-T17S-R33E	80	E-398	State - 12%	OXY USA Inc.	Thelma Cockburn, Trustee Maggie Sueita Cockburn Thelma Cockburn James P. Durnigan, Inc. Nan S. Gullahorn J. B. Harrell, Jr. Justin L. Harrell Bubba Spears	ORRI ORRI ORRI ORRI ORRI ORRI ORRI ORRI	.000625 .013333 .000625 .0044071 .0002651 .0004927 .0001259 .0001259 .0199997	Cross Timbers Oil Company	100.000000%	6.835313%

SUMMARY

Original Unit Acres	1080
Proposed Expansion (Tr 11, 12, 13)	<u>200</u>
TOTAL	1280
5 Federal Tracts	400
8 State Tracts	<u>880</u>
TOTAL	1280

30.685895%  
69.314105%  
100.0000000%

These ORRI figures are based on average daily production of oil per well being less than 15 BO computed on a monthly basis.

To be increased to .03125 after 86,000 barrels of oil have been produced from this lease from depths above 4,500'.

In the assignment to Carper Drilling Company, Inc., dated April 22, 1965, but effective April 1, 1965, recorded in Book 237 at page 188 of the Oil and Gas Records of Lea County, Wolfson Oil Company, a partnership composed of Sam Wolfson and Reuben I. Wolfson, joined by their wives Ruth Ann Wolfson and Sarah Wolfson, and Oscar A. Bourg and Marie Eugenie Bourg, his wife, reserved an overriding royalty equal to the difference between the interest assigned to Carper and the .75520833 net interest in production owned by them, 7/8 by Wolfson Oil Company and 1/8 by Oscar A. Bourg. The interest of .75520833 would be increased by .02734375 as to any well from which the average daily production of oil averaged on a monthly basis is less than 15 barrels and decreased by .02083333 after the production of the first 86,000 barrels of oil.

REVISED  
EXHIBIT "C"  
SEPTEMBER 1, 1996

<u>Tract Number</u>	<u>Percent of Participation in Unit Phase II (Eff 9/1/70)</u>
1	14.988906%
2	2.174986%
3	3.217074%
4	4.940182%
5	2.344968%
6	19.898855%
7	19.373548%
8	6.374393%
9	7.568449%
10	1.978397%
11	3.922912%
12	6.382017%
13	<u>6.835313%</u>
	100.000000%